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MANAGEMENT AUDIT AND THE CORPORATE CITIZEN

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IN a recent statement of the Chairman, Shri A. N. Haksar of I.T.C. Ltd. has said "ITC is a responsible Corporate Citizen. On a previous occasion I described ITC philosophy as follows:

'I believe every Company has two Balance Sheets. The obvious one is already with you in the Report and Accounts. The other, not so obvious, relates to obligations to the National Interest and thus to the public Good'." Again in a recent seminar titled "Third All India Seminar on Company Law" organised by the Institute of Chartered Accountants of India Justice A. K. Basu of the Calcutta High Court emphasised, in his innaugural speech, the need for 'corporate management to cater to social needs'. He said that profits alone should not be the aim of corporate management. Companies should be ready to protect the interests of citizens at large.

It is indeed heartening to note the dawn of the social obligations of corporate management. Because, in a country where nearly half or more of the population live below the poverty line, there can hardly be any choice of an objective other than bringing quick relief to the poverty stricken population. Yet, these are only sporadic incidents which may at best be described as a silver lining in an otherwise dark cloud. Managements do pay adequate lip service to social obligations. But a concerted effort is not made to meet them.

An usual exercise which management conducts to re-view its own activities is known as Management Audit. An 'Audit' of the performance of various activities undertaken by the company invariably sub-serves profit motivation. An audit of the corporates social activities corporate conformance to social obligations is by definition deemed to be outside the jurisdiction of Management Audit which is meant to cater to profit motive alone.

It is proposed to evaluate the justification for the restricted jurisdiction of Management Audit and assess the likely impact if corporate management do not effectively respond to the challenges around it. In this context, the exclusiveness of corporate objective in favour of profit motive posits a very serious threat and challenge to the integrity of Management Audit, may to the very possibility of continued existence of the private corporation. An important question before Management Audit is should the objective of the audit be an evaluation of management practices for its profit producing potential or should audit address itself to certain ethical concepts. As Swami Ranganathananda had put it "Dehumanisation arising from the debasement of work and the worker, by the converting of work into a battle-ground of self-assertion and self-interest, the huge size of modern industrial corporations and their impersonal functioning, and their ruthless drive for technological thoroughness without caring for human cost — all these present serious challenges to human wisdom all over the world". Again "To put profit before people is to debase the people, and make the profit so gained dismal, and the work performed increasingly boring and meaningless". (Swami Ranganathananda, Ethics of Modern Corporation. The Financial Express, August 9, 10 & 11, 1976).

Now, an entrepreneur operates in three principal markets — factor market, output market and financial markets. When profit motive is taken as the solt criterion of performance the entrepreneur makes the most in each one of the above markets.

The basic philosophy is 'means do not matter, only the end matters'.

In factor market for instance, when material shortages emerge, unscrupulous elements appear very fast. People buy at exorbitant rates in unofficial markets, using public monies of course, and pass on the entire burden to the public in the form of a price hike. The raw material meant for production is disposed of to reap a bonanza concomitant to the scarcity. Will management audit locate these evil practices and brand it as nefarious? Or will it ignore it?

Again in factor market various malpractices exist in the hiring of labour, deciding returns to factor labour, treatment to labour, met-

hods employed to procure the inputs (power-say). Will such inhuman, illegal and socially inconsistent management methods be within the domain of management audit for identification and recommendation for change? Or is it deemed to be outside the scope of management audit whose objective is to guide profit motivation?

In the costing of essential items (soap-say), the methods employed do not reveal the real picture. Because, the by-products (glycerine) yields handsome revenue which is rarely disclosed and perhaps never adjusted to lower the price of soap. The beneficiary is a handful of local and alien entrepreneurs and the public suffer. The same is very true of the drugs and pharmaceutical industry. Thus, in output market the pharmaceutical companies play havoc with the Government and the public. As reported in the Indian press a leading pharmaceutical company has raised the prices. According to informed sources "the percentage increase ranges between 24 at the lowest and 230 at the highest. A whole range of products, which include several essential drugs are affected by the price increase".

These companies have an organised lobby to operate various devices to fool the Government. Again, "One of the simplest strategems adopted by it is to provide the Government with the highest price of each raw material alongwith other components instead of the stipulated average price over a period of 12 months as the basis for price revision".

Worse still is "after obtaining an increase, the company has been enhancing the profitability of its products by eliminating certain packing materials. The benefits of such economy are not passed on to the consumers".

Will such atrocious policies attract Management Audit for appropriate remedial action in favour of society, or will it accentuate the 'halo effect' already playing an aggravating role within the organisation?

Again, in the financial markets the companies adopted various strategies to circumvent the existing laws and measures meant to bring relief to the needy segments of the national economy. Thus, recently there was a proposal to grant soft loans almost across the counter (within 90 days) with a view to discourage the continued obsolescence of units in select industries viz. cotton textiles, cement, sugar, jute and engineering industries. The latest report in the Times of India (29.8.1977) says: "inquiries with informed sources reveal certain trends which appear socially undesirable and accord ill with the new government's thinking". "It is the better off companies which dominate the list of applicants for soft loans and they account for nearly four-fifths of the sanctioned assistance. The main interest of the better off units in the soft loan window is to ward off the convertibility clause which brings outside elements (public financial institutions) into the inner management of the house."

"Managements do not want any outsider, be it a public financial institution to have a very close look into their affairs and methods of working." Malpractices abound in the corporate sector and this has an important factor behind its high cost structure".

Of, course there is at least one case where the presence of public financial institutions has not in any way protected the ordinary man. (see Kapadias beat UTI, The Economic Times, 9.8.1974).

Will Management Audit take cognisance of such selfish motives and initiate policies which, without destroying profit motivation, have the sanctity of a standard ethical order?

And last, but not the least, is the modus operandi of top management and the coterie needs to be examined. We have before us several classic and adversely illustrious cases. To illustrate the latest should drive home the point.

The modus operandi of the coterie involved in the management of Kohinoor Mills prior to the take over by the Central Bank of India and the same coterie now washing its hand off the National Rayon Corporation only indicates the kind of devilish power corporations can confer on individuals and groups. Will this also excuse itself from the jurisdiction of Management Audit merely because prescribing a code of conduct is an act which shys away from profit maximisation objective?

The entire gamut of questionable areas for management audit will be the cause of the death knell of the corporate sector if enterprise do not accept enlightened self restraint and allow management audit to look into not only profit motive but also into the qualitative and moral aspects of business and its responsibilities as a Corporate Citizen. This concern for profits alone represents in the words of Swami Ranaganathananda "a social and human non-responsibility".

If this continues it cannot last long however. As Swami Vivekananda says — "The duty of every aristocracy is to dig its own grave and the sooner it does so, the better. The more it delays, the more it will fester, and the worse death it will die".

Even in the advanced countries management audit addresses itself to issues other than the profit motive. Thus, the American Institute of Management evaluates the corporations, inter alia, for the following —

* What contribution do the company's operations make to the national economy, regardless of the size of the company?