

By Invitation

Corporate Ethics & Governance in an Inclusive Growth Framework

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Inclusivity connotes active participation of the largest number of people in the creation and sharing of wealth and prosperity to the greatest equitable benefit of all. Such wellbeing and happiness are dependent upon the adequate and timely production and delivery of goods and services at affordable prices; this role is assigned by society to firms and individuals to efficiently produce and effectively distribute to the concerned segments of buyers in need. Thus licensed and sanctioned by society, business – especially in the corporate format - has its purpose well set out. Failure to align corporate initiatives with the inclusivity objectives of the state will likely lead to impairment and erosion of corporate freedom of choice to govern itself. This paper explores how business should and could align achievement of its profit-oriented objectives alongside satisfactorily addressing the ever changing societal requirements so as to sustain itself on an ongoing basis creating both national wealth and shareholder returns.

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Introduction

“The community can’t ride one track and business another. The two are inseparable, interactive and interdependent”
Cleo F Craig, Former President and Board Chair, A T & T

In the context of the State as represented by the government of the day, inclusivity is a concept that connotes active participation of the largest number of its people both in the creation and sharing of wealth and prosperity to the greatest equitable benefit of all. Such wellbeing and happiness – despite the variations in their connotation to different people – are dependent upon the adequate and timely production and delivery of goods and services at affordable prices; this role is assigned by society to firms and individuals to

efficiently produce and effectively distribute to concerned segments of buyers in need. Thus licensed and sanctioned by society, business – especially in the corporate format which is the focus of this paper - has its purpose well set out and can proceed to carry out its operations to fulfil societal objectives, along the way also earning an adequate, even attractive return for its shareholder owners.

Given this framework, how business should and could align achievement of its economic profit-oriented objectives alongside satisfactorily addressing the ever changing societal requirements so as to sustain itself on an ongoing basis creating both national wealth and shareholder returns is the subject explored in this article. Section 1 sets out the interdependent relationships between and among business, society and the state while section 2 outlines the ethical rationale and public policy imperatives of economic development and the practical problems encountered in equitably and inclusively spreading the benefits of such development among the population. Section 3 discusses the theoretical underpinnings of for-profit corporations and their struggle to meet and manage the often non-congruent goals of their stakeholders including the state. Section 4 explores some of the measures that could align corporate profit objectives with societal objectives, specifically of inclusive development. Section 5 concludes with a reiteration of the business case for incorporating inclusivity objectives of the state in the corporation's strategy and conduct.

1. Business, Society & the State

Government in most circumstances connotes the executive function of protecting the community from external threats as well as internal strife and discord among the populace. Among its earliest manifestations was the institution of a king to discharge these responsibilities. In the Indian tradition, the king was entrusted with the role of protector and law-enforcer of his subjects; in this task, he was guided by a vast set of principles and rules to be obeyed by the population under the pain of punishment for non-compliance generically referred to as *Dandaneeti* or the postulates of punishment to be administered fairly and without any discrimination (Ganguli 2000: 121-29)¹. The 18th century BC *Code of Hammurabi* was a similar edict transparently publicized for general information setting out the do's and don'ts and the punishments for breach (with the underlying dictum of *an eye for an eye and a tooth for a tooth*) in the ancient Babylonian kingdom (Lewis 2003: 7-12). Aristotle, the fourth century BC philosopher, summed up with great simplicity the objectives of the state: "Every state is a sort of association and every association is formed for the attainment of some Good ... [and] supreme Good, the object of that association which is supreme and embraces all the rest, in other words, of the State or political association" (Lewis 2003: 50). That the purpose of the state or the

1. These copious discourses on Rajadharma, or statecraft are available in the ancient epic Mahabharata, in the chapter titled SantiParva. The cited reference is from section LIX from this Parva, in Volume III of the book.

government was essentially to promote goodness or wellness among its people, besides of course protecting them from external aggression whenever that occurred (and often also initiating such aggression over others in the interests of preemptively protecting or further enhancing the wellbeing of its constituents) has been repeatedly stressed by succeeding generations of philosophers and political scientists, allowing for due differences in ideologies. The critical question however has always been how the state should go about discharging this assigned responsibility. Obviously the state cannot itself produce and/or distribute the required products and services as efficiently or effectively as the profit-driven entrepreneurial merchants and businessmen². Delegating business operations to the competent and the motivated, while certainly improving production and delivery, was fraught with the potential for exploitation and abuse for private gain. Adam Smith (1776:709), the eighteenth century Scottish moral philosopher and political economist, referred to this ingrained phenomenon when he famously alluded to the powerful “desire of bettering our condition, a desire which ... comes with us from the womb, and never leaves us till we go into grave.” This human trait spills over to the corporations which, although endowed with an indepen-

2. This may not necessarily be so obvious in states adopting centralized planning and state ownership and control of industries, businesses and other required activities. India’s industrial policies of 1948 and 1956 reserved for the state large chunks of industrial production and many consumer goods industries. The public sector was charged with the task of achieving *commanding heights* in the country’s business scenario

dent identity and corpus by a sleight of the law, continues to function through, and only through the human medium which inevitably brings along its baggage of self-interest, greed and personal gain. This had to be countervailed by mandates and regulations under pain of punishment for their violation. These measures in public interest were intended to protect the freedom of the people in terms of their choice, cost, health, happiness and welfare. Both the inclination towards a propensity for personal profit and the need for, and compliance with, regulatory interventions by the state were emphasized by Nobel Laureate, Milton Friedman when, in the wake of some strident support for corporate social responsibility, he wrote: “... only responsibility of business [was] to ... increase its profits, so long as it stays within *the rules of the game* ...” (1962: 133) (emphasis supplied). These rules are the mandates on behaviour businesses are required to comply with in public interest such as free and fair competition and eschewing of deception, even as they go about their activities with the profit motive.

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One will also have to recognise the potential for mismatches between the aspirations of the people on one hand and the agenda of their elected representatives in a democracy or the powers that

be in case of other forms of government. Having been entrusted with the requisite executive authority to govern and the physical (often violent) means of enforcement to ensure strict obedience by the governed, it is quite conceivable, as has often been the case, that the will of the government of the day being at significant variance with the will of the people. The protector can and often does turn predator preying on its own population (Mill 1859). In that event the shroud that blankets the differing personae of the state and society gives way to disclose the chasm that may exist between the aspired and the achieved, another analogous instance of what Galbraith (2004: ix) had labelled *innocent frauds*.

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There is thus a continuing tension between and among the three pillars of business, society and government in terms of their respective rights and obligations. When the equilibrium level is reached and maintained, there is cohesion in the realm ensuring appropriate service delivery and *inter se* discipline with due regard to respective roles and restraints. Any significant deviations in the exercise of authority or discharge of duty lead to societal unrest that can only be resolved by corrections restoring the equilibrium.

The message is therefore quite clear: society permitted businesses to freely operate to meet its needs at reasonable costs - monetary, social and environmental - and

was not averse to the entrepreneurial class making a profit for themselves in the process so long as it did not breach mandated requirements of the state made in public interest. Business thrived when duly complying with or even excelling the prescribed or desired regime; disaster and even demise were the result otherwise.

2. Development & its Limited Beneficiaries

Despite the perennial quest for improving the quality of life of people in every society and the demonstrable evidence of some success as measured by metrics such as growth in GDP, per capita income, wellness indices and so on, it is indeed ironic that no nation around the world at any time has reached a desired ideal level with little or no scope for further improvement! Partly, this continuing gap between the ideal and real worlds of universal wellness can be attributed to the persistent human tendency of raising the bar and moving the goal posts of the connotations of wellness. This phenomenon was well captured in the insightful hierarchy of wants and needs that Maslow (1943, 50:370-96) postulated decades ago. As people move up the scale of wellness, their desire for even better levels continues unabated. The stage of economic prosperity achieved in a society also dictates the expectations of its people. Thus while a developed economy may not approve of certain polluting and hazardous technologies, less developed nations may not be averse to hosting them in their countries if they offered better opportunities for employment and earnings. While the ethics of such dispersal of industries are

indeed questionable – what Meghnad Desai (2009: 380) called “shaming examples of ... moving ... polluting plants away from where the laws are strict, exporting [them] to where poverty and corruption allowed unhindered activity”³ - the choices before such countries and societies may well be limited. Similar is the case with child labour: while no one would argue in its favour, the harsh reality often is that such employment may well be the only source of sustenance to some families until society is able to find an equitable alternative solution to the problem.

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And yet, even with the best will in the world, it is practically impossible to ensure in absolute terms distributive justice equitably to all or even a substantially large majority of all the members constituting the society. The chasm between the haves and the have-nots keeps widening inexorably; while developmental efforts of the state certainly enlarge the size of the distributable cake (as measured, for example,

3. Desai was commenting upon the Union Carbide Corporation, the Indian subsidiary of which was operating a manufacturing facility in Bhopal in the central Indian state of Madhya Pradesh, producing chemical fertilisers using a highly hazardous process without ensuring attendant safety precautions that led to the worst industrial accident in history when a lethal gas leak in December 1984 killed, maimed, and genetically impacted several thousands of people in and around the factory.

by the growth in absolute GDP), an increasingly larger slice of that cake seems to be sequestered by a progressively smaller proportion of the population (as suggested by an escalating number of millionaires and billionaires) in the country. In other words, the impressive outcomes of development and its associated prosperity seem to be bypassing a vast proportion of the population, which is left out of the party. Bringing such people back in to the field covered by the footprints of prosperity and wellness is the principal objective of inclusive initiatives that the state enjoins on society.

The call for inclusivity is all the more pressing in case of least developed countries. An Eminent Persons Group constituted by the UN Secretary General concluded (UN 2011:39): “The story told by the economic and human development experience of LDCs over the last few decades, particularly when compared to the experience of other developing countries, is not an encouraging one. While there has been some individual country successes in specific areas, as a group, the LDCs have become more “least developed” over the last three decades.”

But the phenomenon is not entirely inapplicable to developed regions and nations either. A telling example is that of the European Union which is striving to bring about greater inclusivity among its member countries with a blueprint of objectives to be achieved by the year 2020 (EU 2010: 16) as: “Inclusive growth means empowering people through high levels of employment, investing in skills, fighting poverty and modernising labour markets, training and

social protection systems so as to help people anticipate and manage change, and build a cohesive society. It is also essential that the benefits of economic growth spread to all parts of the Union, including its outermost regions, thus strengthening territorial cohesion. It is about ensuring access and opportunities for all throughout the lifecycle. Europe needs to make full use of its labour potential to face the challenges of an ageing population and rising global competition. Policies to promote gender equality will be needed to increase labour force participation thus adding to growth and social cohesion.”

In India, development and empowerment of socially disadvantaged groups (comprising largely scheduled⁴ castes (SC), scheduled tribes (ST), and other religious minorities) and bringing them at par with the rest of the society is a constitutional commitment, through specific articulation of fundamental rights and directive principles of state policy. The Planning Commission of India (2006: 85-86) enumerated some of the key measures relating to education required to be taken to accelerate inclusivity in the country’s development effort: “Education is one of the most effective instruments of social empowerment and is vital for securing horizontal and vertical mobility. Schemes for the educational upliftment of the SCs and STs have borne fruits although the gap..... is still at unacceptable levels.

4. Various castes and tribes have been identified as weaker and vulnerable sections of society deserving special protection and affirmative action; these have been enumerated in schedules to the constitution, hence the terminology, scheduled castes, scheduled tribes etc.

Educational schemes in favour of these sections therefore need to be continued with redoubled vigour..... it is imperative to promote education among all other backward sections including minorities, particularly among poor Muslims, who have fallen far behind the national average in all aspects..... It is necessary..... that remedial measures can be taken during the 11th Plan.”

Mandating Inclusivity

The Indian Prime Minister, Manmohan Singh in a 2007 address to the captains of Industry in Delhi referred to the guiding principle of his Government as: “while sustaining higher rates of economic growth, the improved performance of the economy must contribute to employment generation, poverty reduction and human development,” and “The aim of each of our flagship programmes is to ensure that growth is more equitable and that it empowers the most deprived of our citizens”⁵. He outlined a Social Charter of a ten-point programme for inclusive growth and invited industry to partner with the government in their efforts. Industry welcomed these suggestions aimed at capabilities building on a voluntary basis and proceeded to produce an Affirmative Action Report calling upon corporations to contribute to the capabilities building efforts of the nation.

While the capabilities maximization theorem has received virtually universal acceptance around the world, govern-

5. Speech at the CII annual general meeting – 2007, on May 24 2007; [accessed on 16 April 2011] <http://pmindia.nic.in/speech/content4print.asp?id=548>

ments of the day have also coped with the “here and now” situations on the ground and responded to the expectations of their people impatiently awaiting deliverance from their unenviable predicament. These pressures tend to push the state towards adopting an outcomes-based approach instead of the more rational but time consuming competencies building approach. Certain proportions of jobs or seats are reserved for the excluded classes at the expense of others who may be better equipped for the job or seat. This tends to create a sub-optimal situation where to achieve inclusivity for the excluded the state is obliged to create another group of excluded participants who ought to have been included!

The Indian Prime Minister’s (2007) address was an uncharacteristic mixture of pressure and persuasion, and bears quoting if only to highlight the thin dividing line between counsel and mandate: “I also know that increasingly you benchmark yourself against global practices. I appreciate the fact that a corporate entity’s primary responsibility is to its shareholders and to its employees. Your businesses have to be globally competitive. However, even to win this race, you must work in a harmonious environment, an environment in which all citizens feel equally involved in processes of economic growth; an environment in which each citizen sees hope for a better future for him and for his or her children. In a modern, democratic society, business must realize its wider social responsibility. The time has come for the better off sections of our society - not just in organized industry but in all walks of life - to understand the need to make

our growth process more inclusive; to eschew conspicuous consumption; to save more and waste less; to care for those who are less privileged and less well off; to be role models of probity, moderation and charity”.

The industry did not accept and in fact strongly lobbied against mandatory reservations in the private sector for-profit businesses. In its Affirmative Action Implementation Report (CII 2007), it was argued: “Indian industry had assured Prime Minister Dr. Manmohan Singh that it would draw up a robust Affirmative Action plan and it is Indian industry’s contention that a beginning has been made to address a challenge which is very novel for industry and which addresses a lot on the Indian society which goes back several millennia. It would be counter-productive..... for political expediency to revive the demand for job reservations in the private sector. For one, such a measure will not amount to many jobs on the ground.” There are as yet no such imposed requirements, but it is fair to speculate that the jury on this is still out.

Revisiting the Excluded

Creation of wealth involves entrepreneurial, technical, artistic and other sundry skills: it also requires an environment where opportunities exist either naturally or are created by the state. Reservations of certain industries and avocations to organisations of certain size or status, as was substantially the case in India prior to economic liberalisation towards the end of the last millennium, or restricting foreign direct investment in certain industries

and sectors, are clear cases of discrimination. This however is not to suggest that such restrictions are not required: they may be justified on grounds of protecting domestic and smaller industries from unfair competition and hence considered in the larger interests of the society. It may however be prudent to limit these protections to a finite period of time so that the ultimate consumers are not denied the benefits of competitive business for ever. A related issue is the need to provide opportunities to a larger pool of societal constituents to acquire such skills; any impediments to acquiring such skills would militate against the concept of inclusive development. Lack of adequate higher educational facilities offering such instruction either by design or just serendipity is thus a disservice to the cause of inclusivity. As an interim measure (until such additional facilities matching the demand are put in place) affirmative action such as reserving a reasonable proportion of extant facilities to those who may not qualify on stricter criteria of admission may be justified as a lesser evil in larger interests, even though this measure may unfairly deny such opportunities to those who would otherwise have qualified; in fairness to those thus likely to be so deprived, such measures need also have to be reviewed and removed in a time-bound schedule. Equity would demand that inclusive initiatives in the longer run be anchored on the principle of providing opportunities and not just outcomes: equip larger sections of the population to compete for the opportunities, refrain from quasi-permanently assuring results without enhancing competencies. The oft-quoted assertion of Jack Welch, then CEO

of General Electric Corporation in the US, that his company's objective was not to guarantee *employment* but certainly assure *employability* through training and education is an example of how this principle could be effectively applied in practice.

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The second dimension is the more unacceptable and unjustified in the context of inclusivity and has to do with traditional barriers based on ethnicity, genealogy, geography, gender, physical or mental challenge, and so on. Virtually every country in the world seems to have suffered from these prejudices at some time or the other during their evolution. Slavery in the US South, anti-Zionism in Nazi Germany, *apartheid* in South Africa, racial superiority in Britain of the whites over the browns and blacks, the *white-Australia* policy and the marginalization of native aborigines in Australia, the caste-and-tribes-based regimes in India, the intolerance of practitioners of other religions in theocratic states, and scores of other such exclusions have over the centuries meant denying opportunities to fellow humans on the basis of one or the other of the many unacceptable dogmas. Many of them continue till date even where formally outlawed: racial profiling of and discrimination against Sikhs and Muslims in many parts of the world, notably in the US, France and more recently Italy, subjugation of women on religious grounds in

many Islamic countries, the ongoing ill treatment of the so called untouchables and the tacit tolerance of “honour killings” in case of cross-religious-or-communal marriages in India, and so on offer stark proof of the unsuccessful attempts by reformers around the world against the outdated legacies of the past. Export of untested or unacceptable products, services and technologies to underdeveloped countries (briefly referred to earlier), pharmaceutical field testing on animals and humans in the third world, and glass ceilings in case of career women are some of the other prejudices that still militate against ethical behaviour and human dignity and against inclusive development of their peoples and resources that countries across the world profess to strive for; it is time that we began fully “walking the talk.”

3. Towards a Regime of Caring Corporations

The 18th century Industrial Revolution in the UK signalled the advent of machines in manufacturing operations, including the ginning wheel and process technology, and the legendary steam engine which powered the growth of rail roads both in the UK and the USA. All these ventures required finances beyond the reach of small groups of individuals, thus offering a fillip to the formation of joint stock corporations. The substantial funds required to finance such expeditions had to necessarily be raised from the “public” that went beyond kith and kin. In effect, the traditional concept that “owners managed and managers owned” gave way to a situation where owner-

ship of the business in varying proportions was held by a large number of people who had nothing to do with the management of the actual business. This was undertaken by the “dominant” owners or, in later times, hired managers and/or professional executives with the requisite skills. The event that catalysed the growth of the joint stock companies in England was of course the cautious and controversial legislation of the limited liability provisions in 1855 and 1856. These more than achieved the stated objectives of encouraging risky innovations and expeditions which individuals and collectives could not have embarked upon had not their personal exposures been capped by these limited liability provisions.

The modern corporation promises to be a continuing challenge to society’s ability to harness its potential benefits while concomitantly attempting to contain its ill effects.

Modern corporations are, and for quite some time have been, a significant part of peoples’ lives. For example, the Global Top 200 corporations’ combined sales were reported to be bigger than the combined economies of all world countries barring the ten biggest. Among the largest economies in the world, 51 were found to be corporations while the remaining 49 were countries, based on a comparison of corporate sales and country GDPs. Their sheer size, reflected in their financial and political clout, has predictably caused an adverse reaction among world citizens wondering how to balance the positive and

negative impacts of such mammoth entities (*Business Week* 2000). As a product of economic freedom and entrepreneurial aggression, the modern corporation promises to be a continuing challenge to society's ability to harness its potential benefits while concomitantly attempting to contain its ill effects.

Whose Corporation Is It Anyway?

Corporations and their accountability have been the subject of many conceptual and political debates, but the most dominant of these has been an ongoing discussion as to whether the company, its board, and executive management should be accountable exclusively to the shareholders, following the *residual claimant* theory (Easterbrook & Fischel 1991),⁶ or whether their accountability and responsibility should extend to other stakeholders as well. There have been many staunch supporters of the view that the company was accountable to none other than the shareholders; Elaine Sternberg (2004), among others, contends that the stakeholder theory "destroys, rather than supports, conventional corporate accountability." Equally, a contrary view that the interests of other stakeholders should also be taken care of has been steadily gaining ground (Bala 2010:98-102, OECD 2004, Principle IV).

6. This theory argues that the accountability is only to the shareholders on the ground mainly that they stand last in the pecking order of claims, when a company's liabilities are settled, and also because they take the risk and use their discretionary power to allocate resources.

Most modern corporate governance codes and guidelines seem to be cautiously moving towards a position that in some measure takes cognizance of stakeholder claims on the corporation.

An OECD advisory group⁷ chaired by the legendary corporate governance expert, Ira Millstein and included the iconic. Adrian Cadbury among others, summarised the position in 1998 admirably: "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." Most modern corporate governance codes and guidelines seem to be cautiously moving towards a position that in some measure takes cognizance of stakeholder claims on the corporation. In India, for ex-

7. Corporate Governance: Improving Competitiveness and Access to Capital in Global Markets, A Report to the OECD by the Advisory Group on Corporate Governance (1998), Organisation for Economic Cooperation and Development, Paris.

ample, listed companies are exhorted to pursue enhancement of shareholder value, keeping in view the interests of other stakeholders (SEBI 2000).

Inclusivity as Equality

To be *included* is to be treated as *equal* with the rest in the group. Such equality can be in terms of opportunities or of outcomes. As the expert group on Equal Opportunity Commission perceptively explained: “The idea of ‘equality of opportunity’ has a much wider appeal than the idea of equality itself. Equality of opportunity may or may not lead to equal outcomes; the concept suggests a fair race at the end of which some participants get rewards, others don’t. Unequal rewards are morally acceptable – indeed even desirable – as long as everyone had an equal chance in the race, and as long as the unequal rewards were due only to unequal ability or effort. Thus the idea of equality of opportunity is in principle compatible with inequality of outcomes; it offers an equal chance to be unequal.” (Menon 2008 :16). In the context of our focus on for-profit corporations successfully operating in a framework of desirable inclusivity in society, this emphasis on capabilities (Sen 2009: 293-98) in implementing a sustainable equal opportunities programme is inescapable. The prescription is not necessarily to inflict sub-optimal competencies on the organization but rather to provide opportunities for levelling up such strengths through meaningful training and exposure initiatives that would stand the organization in good stead even while affording opportunities in excess of extant levels of capabilities.

Inclusivity as Corporate Responsibility

The egalitarian view of the modern corporation has gradually embraced and accepted a position of holistic responsibility towards society and its constituents even while pursuing its profit objective. Evidence of this transformation – whether out of conviction or compulsion - is available in the large number of corporations around the world and in India publishing sustainability reports of their performance and goals in respect of the impact of their businesses on society and the environment besides of course their economic performance in terms of profits. A large number of statutory provisions also impose upon corporates minimum public interest requirements in relation to several of these matters. One should not of course lose sight of the fact that these provisions usually represent the lowest common thresholds that are acceptable to the political equations of the day. The more enlightened corporations and their boards and executive usually aim to raise the bar and achieve higher levels of performance than mandated.

Besides, there are also gentle and at times not-so-gentle persuasions from the government and other stakeholders for adoption of measures as yet not mandated. The *voluntary* CSR guidelines of the Indian government (MCA 2009: 10) are a case in point. The Preamble to the document leaves one in no doubt that the prescriptions, euphemistically labelled *Guidelines*, are in fact a comply-or-explain direction to the corporate sector in India: “While it

is expected that more and more companies would make sincere efforts to consider compliance with these Guidelines, there may be genuine reasons for some companies in not being able to adopt them completely. In such a case, it is expected that such companies may inform their stakeholders about the guidelines which the companies have not been able to follow either fully or partially.”

While one may or may not wholly endorse all the guidelines provisions, it is undoubtedly a strong indicator of the winds of change as to what the society and its elected government have come to expect from business corporations in terms of their impact on society. In the context of inclusive development, the guidelines (:12) postulate: “Depending upon their core competency and business interest, companies should undertake activities for economic and social development of communities and geographical areas, particularly in the vicinity of their operations. These could include: education, skill building for livelihood of people, health, cultural and social welfare etc., particularly targeting at disadvantaged sections of society.”

Inclusivity Areas for Corporations

Given the basic premise that inclusivity seeks to bring on board those who are left out of benefiting from corporate opportunities, businesses will indeed have to cope with a very vast array of claims for attention. Broadly, these would relate to the three dimensions of impact that corporations have

– economic, social and environmental. Under each of these, issues will arise in respect of the relevant stakeholders – financiers including shareholders and debt providers, employees, vendors, customers, the societal communities where organization is present, and the government.

4. Embedding Inclusivity in Corporate Governance

The board of directors in a corporate format occupy a unique position of authority and responsibility; they are trustees of beneficiaries ranging from shareholders (exclusively in a principal-agent construct) to numerous stakeholders who can affect, or who are affected by, the corporation (Freeman 1983). Cadbury (1992) placed the corporate board “in the centre stage of the governance system.” Similar is the position of the board in India where it is supreme as far as the company is concerned, subject only to the laws of the land and restraints the shareholders may impose through the company charter documents and subsequent decisions in general meetings of members. Every right enjoins corresponding obligations as well and hence the onus of devising and implementing through the executive, strategies and initiatives for building in the required inclusivity measures squarely resides in its realm. How well the board discharges this responsibility will decide the sustainability and prosperity of the company itself. We discuss four key dimensions (among several others) of this challenging task here: employment, environment, communities, and shareholders. These are not mutually exclusive watertight compartments and

there would inevitably be significant overlaps between and among these facets.

Inclusivity & Employment

Encompassed in this dimension are at least four sub-themes dealing with employment creation and accessibility to as wide a population as possible consistent with required competencies, congenial working environment free from intended or unintended discrimination or harassment, a developmental ambience where gaps in individual competencies are closed to the extent possible, and application of such principles and practices to an extended value chain workforce engaged in outsourced-contracted out operations and the entity's vendors-suppliers network. Embedded in these initiatives will be the recognition of basic human rights and dignity of individuals, as well as internal information and assurance mechanisms to monitor and report adherence with, and breaches of desired and prescribed processes for board review and action.

Announcing (as many organisations do) a policy on equal opportunity employment by itself may be dysfunctional unless matched with measures ensuring such equal opportunities are in fact provided at the ground level. Many leadership companies have a practice of announcing upcoming senior job vacancies across the organisation, often internationally, so that all people with requisite expertise have the opportunity to compete for the job, which otherwise may be restricted only to those within the geographical or functional location. In case of re-

cruitments from outside the organisation, inclusivity policies would provide for free and open access to consideration based only on the competencies and specifically excluding any adverse bias on grounds of age, colour, gender, religion, caste, ethnicity or other such considerations.⁸ Such policies have to be not only in place but also seen to be practised as a matter of course. Managing perceptions - such as for example the *glass ceiling* syndrome in case of women⁹ - is a challenge that boards and managements have to address on a continuing basis, and this is best done by open and transparent adoption of laid down policies.

8. Depending upon job requirements, national security or personal protection, certain restrictions may be warranted and these would not be deemed in breach of equal opportunity platform. Some of the legislative mandates such as prohibition of employment of women in factory night shifts, under-aged children in hazardous occupations, and so on fall under this category. Even here, these artificial restraints may be relaxed if extenuating circumstances exist or protective measures are in place: for example, employment of women on night duty in some IT related industries like call centres may be permitted if only to neutralize client-country time-zone differences and with stringent security requirements to protect employees both during and in transit to and from work. Similarly national security might demand employment of only nationals in certain strategic jobs and industries.

9. Boards around the world – India being no exception – have not acquitted themselves creditably on this front even in respect of their own membership! Women on boards constitute a very small single digit percentage of all available board positions in virtually every country; even those limited numbers are comprised largely executive career women rather than non-aligned independent members on boards.

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The second element relates to the developmental environment within the organisation to bridge the capability gaps among otherwise suitable candidates. Internally, this is addressed by meaningful human resource development initiatives including, but not limited to, training inputs to acquire higher levels of skill-set competencies, job rotations and geographical relocations to build and enhance wider cross cultural appreciation and exposures especially for more senior positions, and inter-disciplinary inputs to enhance holistic appreciation of business situations for better decision making.¹⁰

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10. This is particularly relevant in case of functional specialists being prepared for general management positions; an ability to de-specialise from one's specialization so as to be able to appreciate multi-disciplinary dimensions of business problems and inter-disciplinary conflict resolutions is an important skill, the lack of which can militate against achieving meaningful inclusivity in higher management selections.

In terms of such skill-building in the external environment, leadership organisations have followed several innovative measures. Many leadership IT companies in India have set up their own educational facilities to impart job-related training and skills to candidates joining the prospective employee pool of the industry with options and first-refusals built in when adequately qualified. This is an instance where industry is helping in capacity building in society even while strengthening its own inflow of required competencies which otherwise would have to be offered by external educational institutions. A different initiative aimed at strengthening prospective employee pools is one where enlightened companies encourage – even mandate – time allocations by their employees towards teaching at external educational institutions and professional seminars. This has two advantages for the company: first it helps its managers to be updated in their field for teaching purposes, and second, it supplements the ever-in-short supply teaching faculty pool engaged in capacity-building in society. Much of this volunteering should be internalised in such organisations as part of the job – not as philanthropy in kind – and included in the employee performance evaluation criteria.

The next sub-theme has to do with the working conditions and culture in organisations that would promote inclusivity. Every effort should be made to make all employees inherently feel as belonging to a social group of individuals without any of the divisive distinctions. Most leadership companies seek to develop their own corporate identity unifying their employees

wherever they may be. Work place harassment – sexual, ethnic or otherwise – needs to be put down with strong punitive action in case of breach. If this is not done promptly and rigorously, affected employees would prefer to be excluded from the offending group, an action clearly militating against inclusivity objectives.

If the organisation has a whistleblower policy, the company must ensure that genuine non-frivolous whistle-blowers are not victimised or discriminated against. Although it is the stated objective, even supported in many jurisdictions by legal provisions, it is not easy to totally eliminate the scourge of reprisals in one form or another.¹¹

Finally an important, even if difficult, element of inclusivity implementation is the task of ensuring their observance in outsourced entities and the firm's supplier-vendor network as well. Given that such contracting out various activities has become a way of life in modern-day business operations corporations have an obligation to see their inclusivity practices are observed in the contract units as rig-

orously as they are within the company. The relevance of extending this obligation has been recognised for a long time, but its application and enforcement have been gaining ground rather haltingly. The Sarbanes-Oxley legislation in the United States extending corporations' responsibility on certain matters to outsourced units beyond its political borders is just a reinforcing manifestation of the moral and legal compulsions that had always been present but glossed over. The inconsistency of approach can be vividly illustrated in case of child labour – more often than not, companies that profess their opposition to such labour in their organisations would scarcely be agitated if such labour were (as often the case) to be engaged by their contracting units. A further extension of this principle is to prefer wherever possible suppliers and vendors whose employment practices are in accord with those of the buying firms. Although not easy to implement – especially in case of suppliers of proprietary products and services – such purchase preferences, the ends of justice with regard to adopting inclusivity discipline in the country are unlikely to be met until all the units in the value chain fall in line on their own or by persuasive pressures from linked-up constituents.

Inclusivity & the Environment

Discussions on inclusivity are usually associated with people; its extension to environment may therefore need to be justified. Peoples' lives are impacted upon by the economic, social and physical environments in which they live; their wellness, which is the objective of all

11. History is replete with such instances of victimization even if not so called. To cite just two examples: Sherron Watkins, the whistle blower who brought the Enron fraud to the attention of the world had to leave the company long before its demise. In case of the 2008 financial meltdown, Lehman Brothers who were among the major casualties to file for bankruptcy, fired Mathew Lee, their senior vice president – finance, who blew the whistle blower to expose their inappropriate treatment of repo transactions, much before the case hit the headlines. Protective laws seem to be ineffective in curbing this trend, even in developed markets such as the US.

inclusivity efforts, will never be achieved to the desired levels if any of these parameters are not optimally maintained. While the economic and social environments are sought to be extended to all people without any unjustified exclusions, ignoring the third component, environment, will vitiate any of the successes on the other two dimensions. One could well imagine how dysfunctional even a society with economic and social inclusivity can be without simultaneously pleasant physical environment in which to enjoy the fruits of such inclusivity in other dimensions. Such a society without universal access to pure air, clean water, safe power, good communications and so on can hardly boast of high levels of wellbeing. It is in this context that concern for the physical environment becomes an integral part of any inclusive growth initiatives.

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Business corporations could contribute significantly to this important component of inclusivity. In manufacturing industries especially, they should ensure that they not only comply with but improve upon emission and pollution control regulations. It is not an acceptable rationalisation that the gutters and canals where pollutants are discharged are worse in quality than the treated factory effluents and hence any shortcomings on the part of the corporations are not material. Leaders should lead by example, not hide behind defensive or irrational excuses. Global warming and climate

change are issues threatening the levels of comfortable living for the populations of the world and offer leadership companies great opportunities to minimise their roles in further aggravating an already delicate balance.

In a land of consistent energy shortfalls, ensuring effective energy management is a key corporate response. This applies not only to the energy usage or wastage within the company in its own operations but also to the energy-efficiency of its products and services. While designing products and services, companies may like to invest in technologies that facilitate recycling, and optimally utilising the resources consumed in providing the product or service.

Similar considerations apply to other essentials like air and water. The objective with regard to such scarce natural resources should be to aim for a measure of neutrality in consumption. Extractive industries need to find environmentally acceptable methods of disposal of mining residues and tailings. Experience of companies like the Big Australian, BHP Billiton (Thompson & Macklin 2009: 191-202) especially in the Ok Tedi river basin in Papua New Guinea should offer valuable lessons to company boards on how not to address such issues if they were to care for inclusive development of the peoples of the host locations and even more specifically if they have to ensure sustainability of their company's business operations at home.

Companies can also significantly contribute in the field of road transportation

and discipline in their cities. Many companies, including some which are reputed to have excellent governance and inclusivity practices, engage contract vehicles to transport their employees to and from their work places. Given the stringent requirements as to punctuality and so on, many such companies threaten the transport contractors with monetary penalties in case of delays. This leads to reckless driving on the already congested and damaged roads and violation of all traffic rules, all just to comply with the timing schedule requirements. Companies should of course insist on punctuality as much as on performance, but should make it clear to the contractors that it does not mean a licence to traffic chaos and endangering of lives of employees in their vehicles and other on the roads.

Inclusivity & the Participating Communities

The third dimension relates to the positive role that corporations can play through engagement with the citizens in the communities of company's presence and operations. When it sets up a business or manufacturing base in a location, the company establishes an umbilical relationship with the host city and this entails an obligation, far above and beyond just legal or compliance issues. It assumes in many ways a responsibility to contribute to the wellbeing of that community and its people. This contribution could manifest itself through employment opportunities to eligible people with requisite competencies as well as opening up secondary and tertiary economic activity, efficient supply of its goods and

services, improved infrastructure and civic amenities made possible from the additional taxes that the firm and its employees contribute, better connectivity to and communication with other locations opened up through the activities of the corporation, and so on. People who were otherwise under-employed and even unemployed before the advent of the firm would thus be brought into – and included in – the mainstream of growth and wellbeing.

While in the corporate context mostly headquarters and factory locations are understood as relevant communities, it is as well to note that similar linkages and responsibilities *albeit* on a relatively smaller scale would be involved in every location, market and country that a company is present in. As applicable to host countries in case of transnational corporations, even domestically similar considerations of “acting local” would arise and need to be respected.

In a community context, corporations have several alternatives to consider on enhancing inclusivity of the population in partaking of the economic and material benefits arising from the firm's location amidst them. It is not unusual especially in locations away from the main metros for the towns or villages to be lacking in hygiene, schooling, medical and other such basic needs of wellbeing. Leadership corporations help setting up new, and upgrading existing facilities. Often there is a business case for taking these inclusivity initiatives. With such basic amenities in place, local workforce could focus on the jobs on hand rather than

being distracted by such matters. Such involvement enhances corporate reputation locally and can certainly contribute to better recruitment and retention of employees who may find a sense of loyalty to the firm that has provided the basic amenities. Better attendance, improved performance, and enhanced learning on the job may all contribute to higher productivity and earnings leading to additional disposable incomes. All this would of course contribute to more and more people getting included in the prosperity and wellbeing bandwagon.

Corporations can also contribute to the competencies building efforts by assisting financially and through volunteering by senior employees and managers as noted earlier. Large global corporations have gone that extra mile to set up institutions of higher learning – Motorola is an oft-cited example – that would help in better capacity building and consequently opening up for more and more people equal opportunities to find satisfying and well-paying jobs and business options which would otherwise have been beyond their reach.

Inclusivity & the Absentee Shareholders

The concluding dimension under discussion here relates to another unlikely population group comprising absentee shareholders who have no say in day to day operation of the corporations they own shares in. Inclusivity discussions generally tend to focus on the problems of the relatively poor and forgotten sections of the populations at large. There

are compelling reasons to apply some of the arguments and possible solutions to these groups of shareholders (many of them retired citizens dependent upon inflows from their holdings in any case) who are often excluded from fair and equitable participation in the prosperity of their respective companies. Such a consideration is also justified on the basis of parallels in the political concept of inclusivity: when addressing inequalities among peoples, it is not always possible to take a whole country together at the same time. Some regions and states are more advanced than the others and often it is the less advantaged groups that are sought to be brought into the inclusivity net of partaking of the benefits they have been denied for reasons that have already been discussed. Within regions and states, it is not unusual to focus on the less advantaged sections of the population to bring them in to the mainstream of economic activity and prosperity. Similarly, within the corporate sector which constitutes a significant part of the economic activity in the country besides employing virtually a vast proportion of the organised labour, it should be possible to isolate the less advantaged shareholders, namely those not in operational control and restore to them what is their legitimate due.

Corporate Ownership & Democracy

A major feature that distinguishes the US and UK from the rest of the world (India included) in terms of ownership of business corporations is the structure of such ownership. United States and United Kingdom are the two

countries where corporate ownership is largely diversified with individual percentages in the lower single digits. In all other countries, ownership is concentrated in the hands of a controlling individual or group sufficiently large enough for them to ward off in general any threat of takeover by the dispersed shareholders. The latter are not necessarily a minority – often collectively they are stronger than the controlling holdings but the perennial problem of democracy applies here as well in that they all cannot get together, for reasons of uneconomic holdings, geographical distances, political and other such pressures, to contest and vote out the controlling shareholders. In India, as in many other emerging economies, there are at least three such dominant groups controlling a vast majority of corporations: family or domestic groups, multinational groups, and the state-owned group.

Voting power is perceived as the key driver in democracies for determining the will of the majority which prevails over the minority. Sen (2009:352) argues “A broader understanding of democracy as public reasoning ... can accommodate the importance of minority rights without ignoring majority votes as part of the total structure of democracy.” He also quotes the Marquis de Condorcet, the eighteenth-century pioneer of social choice theory, warning against “the maxim that the few can legitimately be sacrificed to the many.” It is ironical that in corporate democracy it is not only the few against the many but actually the many against the few, since absentee shareholders are often the ineffective

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The result of such groups controlling corporations is that it is in their exclusive power and authority to sequester for themselves a more than legitimate share of the companies’ wealth and wealth creating corporate opportunities at the expense of other absentee shareholders who do not enjoy such private benefits of control. It is this exclusion that needs to be addressed through the inclusivity principles that apply to civic societies and communities. A number of measures already exist in law and regulation that however appear to be circumvented quite easily as has been seen in several instances of corporate demeanours and frauds. The principal instrument is the voting power at general meetings of members where the controlling shareholders’ votes are readily available while the dispersed shareholders’ votes are not easy to come by because of poor attendance and participation. Several countervailing measures have been suggested especially in case of corporate decisions involving related party transactions (Bala 2009: 554-75, Bala & Satwalekar 2010: 13-18); some of these have been accepted by the market regulator, Securities and Exchange Board of

India, which has commended them to the government for legislation.¹²

Internalising Inclusivity as a Process

While the foregoing discussion embraced a broad range of inclusivity ideas as applicable to business corporations, its central theme has of course been to highlight the imperatives of incorporating inclusivity thinking in operational decision making processes. Inclusivity (as much as its inseparable concomitant, ethics) has to be imbibed as part of the DNA of the organisation where these serve as the systems software (to borrow a phraseology from the information technology space) to run all its decision applications across the organisation. The concept has to be embedded in the operational logistics and strategies. Flowing down from the board at the top, successful sustainable corporations would seek out how such initiatives could be launched not as a drag on profitability but more as strategic opportunities for wealth creation. Isolating them as standalone chores to be gone through as part of a check-box ticking compliance exercise outside of organisational decision dynamics would trigger an accelerating slide down the

slippery slope of lost opportunities and likely eventual demise of the organisation itself.

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5. Inclusive Governance as a Business Proposition

Despite the clear writings on the wall, many corporations would probably still be undecided about internalising inclusivity as business strategy. Successful and sustainable corporations cannot be built on the basis of islands of prosperity in a surrounding ocean of discontent and deprivation. Businesses have to realign themselves with the changing needs of the society that they have to care for even while earning economic profits for their shareholders. Visionary corporate leaders are the first to identify societal needs and proactively channel their corporations' financial, managerial and technological resources to satisfying such needs. Larger the proportion of population gaining from such initiatives and participating in the mainstream prosperity generated in the country, greater will be the satisfaction and recognition of a job well done. This reflects in the reputation of the company as a good corporate citizen not only in their home country but also in other locations hosting their operations, leading to increased valuations

12. The principal measure of debarring controlling shareholders from voting at general meetings on resolutions where they stand to benefit to the exclusion of other absentee shareholders had been among the major recommendations made in a 2000 Report of Corporate Excellence by a Committee (of which the author was the drafting member) appointed by the then Department of Company Affairs and presented to the then Minister in charge, Arun Jaitley; obviously the recommendation was far too much ahead of its time and remained to be legislated.

and returns flowing to the shareholders whose interests the company and its directors are required to look after. Illustratively, GE's chairman, Jeff Immelt (2007: 7) had this to say with regard to its approach to stakeholder engagement:¹³ "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."

Underlying such statements is the hard fact that most of these initiatives create larger number of productive jobs and enhanced competencies that lead to the inclusion of more and more people reaping the benefits of growth; the route to delivering value to shareholders is through numerous such initiatives – saving energy, minimizing environmental pollution, making available better products

and services that satisfy customer needs and enhance their feeling of wellbeing, improved adherence with human rights and dignity expectations, minimizing or even eliminating biases and discriminations against people based on gender, race, creed, colour and so on – which carry more and more people into the mainstream of economic activity and sharing in its fruits.

In conclusion, it may be appropriate to remind ourselves that inclusivity is a matter of utmost concern to all, affluent citizens and business corporations included, and not to just those who are deprived and the politicians and civil society outfits that espouse their cause; in the satisfactory resolution of the problems of exclusion lies the prospects of peace, prosperity and the pleasures of being part of a cohesive and complementary society. A White Paper (UKWP 2008) to the British parliament in the context of a proposed legal reform relating to addressing inequalities and human rights violations in the United Kingdom, insightfully noted: "The government believes that fairness for all is the basis for a healthy democracy, economic prosperity and the effective delivery of our public services. Equality and human rights therefore matter to all of us, not just those who experience discrimination and unfair treatment." If business corporations could heed these words of wisdom, adopt the problems of the excluded and underprivileged as their own, and with their superior intellectual resources find satisfactory solutions (some of which are discussed in this paper), they would have helped not only the excluded but also

13. Investing in a Sustainable Future: GE 2007 Citizenship Report, (2007), June:7

themselves. Failure to do so may likely lead them to a situation similar to the one Martin Niemoller was faced with in Nazi Germany,¹⁴ with no one to be concerned about him!

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14. Niemoller, a protestant pastor in Germany spent several years in a Nazi concentration camp. Years later he addressed the US Congress on the perils of not speaking out against injustice; following is one version of his quote accessed from <http://www.rumormillnews.com/cgi-bin/archive.cgi?read=21457>
"When Hitler attacked the Jews I was not a Jew, therefore I was not concerned. And when Hitler attacked the Catholics, I was not a Catholic, and therefore, I was not concerned. And when Hitler attacked the unions and the industrialists, I was not a member of the unions and I was not concerned. Then Hitler attacked me and the Protestant church — and there was nobody left to be concerned."
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