

**Management, Change, Strategy and Positive Leadership**  
*Series Editors: Satinder Dhiman · Joan Marques*

Subba Rao Pulapa

# Business Ethics and The Bhagavad Gita

Cost of Unethical Acts:  
Directions of the Dharmātman for  
Ethical Leadership



Springer

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## **Series Editors**

Satinder Dhiman  
School of Business  
Woodbury University  
Burbank, CA, USA

Joan Marques  
School of Business  
Woodbury University  
Burbank, CA, USA

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of the Dharmātman for Ethical Leadership

Subba Rao Pulapa  
Millennium University  
Blantyre, Malawi

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*Dedicated to  
Dharmatman Lord Sri Krishna*



# Preface

Globalisation, coupled with strides in information technology, has provided boundary-less and innovative business and service opportunities which instil ambition in some and greed in others. Ambition and greed inspire people to become entrepreneurs, establish/expand business and contribute to wealth creation. Ambitious people are concerned and share the gains with other stakeholders whilst greedy accumulate and maximise everything for themselves and for their next generations, sometimes by resorting to unethical acts. In fact, there is no guarantee that wealth accumulated by greedy people can be enjoyed by their descendants.

*Dharmatman* Lord Sri Krishna directs us to enable the continuous and free flow of the wheel of creation (Verse-16 of Chapter-3 of Srimad Bhagavad Gita) by distributing proceeds of business to all stakeholders duly. Capitalism may encourage the greedy trait of accumulation and maximisation of wealth/power for self among some people. Ethics/dharma play a pivotal role in eradicating greed in order to enable the continuous and free flow of the wheel of creation in all walks of life and especially in business and service organisations in capitalistic economies. Of late, the business firms' goal of profit/wealth maximisation is relegated by sustainable development which might be based on ethical conduct.

Conduct of business and service transactions ethically contributes to the continuous and free flow of the wheel of creation, which is established, maintained and regulated by the *Dharmatman* Lord Sri Krishna. This, in turn, enables for enjoyment of the value created by the business by all stakeholders duly and also for sustainable development of organisations. In addition, leaders are treated as role models and hence they have to perform the assigned duties by the mission of their respective organisations ethically that includes perfectly as the Lord indicated.

Directions of the *dharmatman* help us to achieve the organisational vision and mission from the comprehensive perspective of business existence and growth in its totality and enjoyment of their due shares in the value created and added by all stakeholders. Leaders of various sectors have pivotal roles to play in building ethical organisations and thereby ethical economies and societies. Ethical leaders can prepare ethical followers and vice versa. This would enable the people to play their

assigned duties perfectly and thereby strive for their self-actualisation rather than limiting themselves at the lower stages of achievement/realisation of their potentialities. This process would enable for 'greater good' and leads to happy, peaceful and delightful economies and societies that pave the direction for ethical economics. Towards this end, by the grace of the Lord Sri Krishna a dismal attempt is made to interrelate the directions of the *Dharmatman*.

This book is written in conversation style using a hypothetical executive development programme in order to instil interest and continuous readability among readers.

Readers are requested to send their feedback, comments and suggestions to the author via email.

Blantyre, Malawi  
27th February 2020

Subba Rao Pulapa

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Blantyre, Malawi  
28th February 2020

Subba Rao Pulapa

# Non-English Words and Their Meanings and Names from the Mahabharat Used in This Book

**Acharya Drona:** Acharya Drona was royal preceptor of the Kauravas and Pandavas in the Mahabharat, the most revered epic of the Hindu religion.

**Arjuna:** Arjuna was the third son of King Pandu, King of Kuru Dynasty, in the Mahabharat.

**Atman:** Atman in Sanskrit means soul.

**Bhagavad Gita:** Song of God. Lord Sri Krishna revealed the Bhagavad Gita to Arjuna (one of the Pandavas), wherein the Lord declared (Chapter-4, Verse-8) that ‘For the protection of the virtuous, for the extirpation of evil-doers, and for establishing Dharma (righteousness) on a firm footing, I manifest Myself from age to age’. It is a sacred text of the Hindu religion. In fact, some view that message of Bhagavad Gita is relevant for all religions.

**Bhagawan:** in this book means the Supreme Lord Sri Krishna who is also referred to as Dharmatman. There are several names to the Lord including Achyuta, Keshava, Rama and Narayana.

**Bhishma:** He was the eighth son of Kuru King Shantanu and the grandfather of Pandavas and Kauravas in the Mahabharat.

**Dharma:** Dharma in Hinduism denotes ethics and yet provides a broader meaning compared to ethics involving brain, mind and soul.

**Dharmatman:** Dharmatman is the Lord Sri Krishna who establishes, protects, restores and re-establishes dharma millennium after millennium. The Supreme Lord is all pervasive and ultimate in establishing, practicing and protecting dharma, interpreting dharma and directing human beings in following dharma or ethics. The Supreme Soul Sri Krishna is an incarnation of the Supreme Lord Vishnu. Sri Krishna is also regarded as the Supreme God in the Hindu religion.

**Dharmic Approach:** Dharmic approach to ethics deals with performing duties assigned to oneself in a right way and path of righteousness without being attached to results.

**King Janaka:** King Janaka is an ancient Indian King of Videha. King Janaka was father of Goddess of Sita and father-in-law of Lord Sri Rama in Ramayana – one of the most revered epic of the Hindu religion.

**King Yudhistira:** King Yudhistira was the eldest son of King Pandu, King of Kuru Dynasty, in the Mahabharat.

**King Karna:** King Karna was the King of Anga Kingdom in the Mahabharat.

**King Dhuryodhana:** King Dhuryodhana was the eldest of the Kauravas in the Mahabharat.

**King Shalya:** King Shalya was the King of Madra Kingdom and the uncle of the Pandavas in the Mahabharat.

**Pandavas:** Pandavas were five sons of King Pandu, King of Kuru Dynasty, in the Mahabharat.

**Rajas:** means passion

**Universal Brahman:** It is believed that soul/atman is a part of *Universal brahman* that underlies working of the universe. The supreme Lord is regarded as the Universal Brahman.

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# Chapter 1

## Business Ethics: An Introduction



**Professor:** Dear participants Mr. Suresh, Mr. Ram, Mr. Gopal, Mr. Narayana, Mr. Mukund, Mrs. Kiranmayi, Mrs. Sukanya Devi, Mr. Naresh, Ms. Ishani, Mr. Nitin, Mr. Rohan, Mr. Hari Shankar and Mr. Balu, good morning to you all.

I welcome you all to this trendsetting executive development programme on 'Business Ethics and the Bhagavad Gita'.

**Participants:** Professor, good morning and thank you.

**Professor:** Participants, initially I will explain the concepts of ethics, dharma and business ethics in addition to the need for business ethics in this session. I would like to ask a question.

**Mr. Mukund:** Professor, what is the question?

**Professor:** Mr. Mukund, what is the basic objective of a business firm?

**Mr. Mukund:** Professor, it is well-known and we also read in many business management and economics books. It is 'profit maximisation' or 'maximisation of shareholders' wealth'. In fact, we also practice it.

**Professor:** Good. I would like to know from you. First, I will explain the need for business ethics.

**Need for Business Ethics** Milton Friedman argued that 'business's business is just business'. He stated that business managers' responsibility normally is to maximise business' earnings by following the norms of society [1]. He also felt that individu-

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Note: Meanings of verses of Bhagavad Gita are taken from Srimad Bhagavadgita, published by Gita Press Gorakhpur India, 2019, with permission from the publisher.

als, but not corporates, can have responsibilities [2]. He further said that companies have to concentrate on increasing profits for shareholders, and societies get benefit from growing companies [3].

A similar opinion was expressed by Peter Drucker [4]. However, later he expressed a different view that business should not damage the society. Friedman's argument was regarded as **pragmatic** in the past. Of late, different views were expressed that businesses' goals should be inclusive of social responsibilities and good corporate governance [5].

The regulated economies necessitated their governments to regulate and control business organisations and economic institutions through law and government mechanisms to enable them to play their role in contributing to the growth and well-being of various stakeholders in a balanced way such that the interest of almost all of the stakeholders including customers and the society was duly protected.

Deregulation/liberalisation, privatisation and globalisation which were initiated in most of the countries during the 1980s and 1990s brought paradigm shifts in various spheres including the schools of management thought and business models and structures. Consequently, various business management concepts, principles, theories, practices, goals and strategies have been under evaluation, revalidation and constant change. As such, now it is believed that 'only change is constant'. Governments, which were hitherto discharging the responsibilities of safeguarding the customers' interests in respect of quality, price, safe and timely delivery of the product, etc., protecting the companies from unhealthy competition and restricting the concentration of economic power in the hands of a few which should otherwise be enjoyed by the majority of the population and the like, relegated and shifted those responsibilities onto the shoulders of the business organisations, often simply by encouraging trade deregulation or liberalisation and privatisation.

Many social scientists felt that the deregulation would encourage the business to reverse back to its orthodox objective of 'profit maximisation' by whatever means including practising unethical conduct. But sooner or later, a number of incidents and business scandals around the world proved that businesses should carry out their operations ethically for the sake of their basic survival and sustainability. In fact, it is viewed that the business objective of profit maximisation is relegated by the objective of sustainable development.

The issue of ethics before liberalisation, privatisation and globalisation had neither been due to lack of information and knowledge nor due to the non-acceptance of principles of ethical behaviour underlying such knowledge, but it was due to governments' role of regulating and controlling to a greater extent and avoiding attitudes developed by business people towards law to some extent, consequent upon the opportunity provided by the sellers' market.

The issue, now, is to treat ethics as part of making individual and collective business decisions and ultimately ensure corporate ethical behaviour. Corporate ethical behaviour is an outcome of conglomeration of individual behaviour of business managers and of the stakeholder organisations. Many business people are religious individuals, but their business suits may make them blind towards human suffer-

ings. They might have used to get away with unethical behaviour more often under conditions of a seller's market, i.e. where the seller holds the power in the market place. In fact, when conditions change and the market environment became a buyer's market, this, more often than not, causes business people to realise that behaving ethically is not only in the interest of their personal life but also in business life, especially over the longer-term perspective of achieving the strategy of sustainable development.

The latest and significant event in this direction that was held on 19 August 2019 in New York was the 'Business Roundtable' that took a deviation from the classical ideology. Participants at this meeting expressed that US companies should render responsibilities towards various sections of community and serve stakeholders ethically. It was also felt at this meeting that corporations should render responsibilities to all sectors of the community, particularly to education and health sectors, and more specifically treat the employees fairly. The meeting also felt that employers should pay at least living wages to lower-level employees [3].

In essence, it seems that the basic objective of business is set to shift from profit maximisation to profit accompanied by human welfare.

We may speak a lot about ethics, but it is difficult to narrow it down in the form of a definition as it encompasses several disciplines including theology. However, we make an attempt to provide meaning of the term 'ethics'.

## What Is Ethics?

The word ethics refers to good character, morality, doing things in a right manner and behaving in a good manner [6]. Ethics deals with morally good and bad or morally right and wrong and moral duty, responsibility and obligation in human behaviour. It also deals with what ought to be and what ought not to be.

Ethics is application of appropriate values and for creating and developing morals and guiding towards moral behaviour and actions [7]. Commonly, ethics is also referred to as good, right, just and honest. Dharma in Hinduism expresses similar meaning of ethics.

Ethics denote perfectness, values, morally right and good, moral duty, moral responsibility, possessing good character, righteous behaviour and what to be and what not to be done.

Now, we deal with the meaning of dharma.

**Dharma** Dharma in Hinduism lays emphasis on behaviours that are in accordance with truth and cosmic principle [8]. Dharma deals with good, right, duty, role, good behaviour, values [9], right way of living [10], correct, moral and natural [11]. Thus, the word *dharma* in Hinduism denotes ethics and yet provides a broader meaning compared to ethics involving the brain, mind and soul. However, we may take ethics and dharma as synonyms for our discussion.

Dharma and ethics are judged based on situations where truth is permanent and doesn't change based on situations including cultures. It is felt that people follow ethics or dharma differently as they perceive the situations differently and as such attribute to the relationship between the situations and personalities differently.

**Mr. Balu:** Professor, though these variations of situations to some extent can be attributed to the personalities including their faculties, it is felt that soul or atman plays a dominant role in following ethics or dharma as it influences the faculties in a righteous way.

Could you please explain the relationship between soul and ethics?

**Professor:** Balu, I clarify the relationship between soul and ethics.

## Soul, Atman and Dharmatman

It is felt that soul or atman plays a vital role in following ethics or dharma by an individual along with personality traits derived from hereditary and environmental factors. Hence, I make an attempt to provide the meanings of soul and atman first. 'Soul is spiritual part of a person that some people believe continues to exist in some form after their body has died or the part of a person that is not physical and experiences deep feelings and emotions' [12].

Atman in Sanskrit language means soul [13]. Atman is the principle of life [14] and transmigrates to different forms including liberation [15]. Atman like soul is a spiritual aspect of a body of all creatures. Atman enables various organs of the living being and faculties function as it is also viewed as the principle of life. It is believed that atman is a part of *Universal Brahman* that underlies working of the universe [15].

Thus, it may be viewed that soul and atman are synonyms that they are not part of physiology of the living being. Soul or atman is eternal and continues even after the death of current body, yet is related to the living being and enables various organs including faculties to function. Atman as indicated is 'the principle of life of an individual' [14]. *Universal Brahman/super soul* is viewed as omnipresent. It is the source of energy to and exists in all living creatures. It enables all others to be active and grow [16].

Thus, atman is regarded as brahman after Enlightenment. Brahman influences all living beings including humans in following dharma through sway atman, which may be regarded as *Dharmatman*.

Lord Sri Krishna is regarded as absolute incarnation and HE is regarded as *Dharmatman* as the Lord practices and preaches dharma through demonstration, guides people in practising dharma, corrects the people in following dharma/path of dharma and establishes and restores/reestablishes dharma millennium after millennium. Lord Sri Krishna was addressed by *Pandavas* in the assembly of Sages as *Dharmatman* [17]. (Pandavas are five sons of King Pandu King of Kuru Dynasty in

the most applauded epic of Hindu religion of Mahabharata). As indicated earlier, *atman* means the principle of life. *Dharmatman* means the principle of life of dharma who is the Godhead Lord Sri Krishna.

*Dharmatman* – the Supreme Lord – is all pervasive and ultimate in establishing, reestablishing, restoring, practising and protecting dharma, interpreting dharma and directing human beings in following dharma or ethics. Lord Sri Krishna in Verse 8 of Chapter 4 of Bhagavad Gita says, ‘For the protection of the virtuous, for the extirpation of evil-doers, and for establishing Dharma (righteousness) on a firm footing, I manifest Myself from age to age’. [18] As indicated in this verse, The Supreme Lord Sri Krishna, who is personification of dharma practised, directed the people to follow dharma and also preached the principles of dharma to all the humanity through Srimad Bhagavad Gita to Arjuna. In addition, the Lord establishes and restores dharma from time to time in addition to guiding, coaching, teaching and preaching the people. It is also felt that one of the main purposes of Lord Sri Krishna’s incarnation is restoration of dharma. The Lord also indicated that he takes incarnations from time to time for establishment of dharma. Thus, the Lord is the embodiment of dharma.

**Rohan:** Balu, thank you for asking that wonderful question, and I thank the professor immensely not only for explaining the influence of soul/atman in practising ethics but also for explaining how the Lord Sri Krishna’s incarnation is related to dharma and Pandavas addressing Lord Sri Krishna as *Dharmatman*. Now, I would like to know the criteria of ethics or dharma.

**Professor:** Rohan, I understand your eagerness. Let me explain.

**Criteria of Ethics** Criteria of ethics include the following:

- (i) Criteria of optimism that prescribes optimum mix of values taking into consideration real-life situations.
- (ii) Criteria of truth that prescribes speaking and presenting the truth. Speaking the truth, in its turn, emphasises transparency and honesty in carrying out transactions including business transactions.
- (iii) Criteria of charity and compassion.
- (iv) Criteria of trust and cooperation.

The values of trust and cooperation should be deep rooted and spread in all directions of the business in order to run the business prudently and with care. Adaptation of these values enhances business efficiency and trust of the customers, executives and all other stakeholders of a business organisation.

**Approaches to Ethics** Various approaches to ethics include dharmic approach, deontological approach and utilitarian approach.

**Dharmic Approach** Dharmic approach to ethics deals with performing duties assigned to oneself in a right way and path of rightness without being attached to

results. Duties are prescribed for carrying out the work with positive intentions of the wellbeing of the society and all living beings at large in a right and moral way. This approach doesn't deal with the outcome of the action. The Dharmatman Lord Sri Krishna in Verse 47 of Chapter 2 in Bhagavad Gita said that 'Your right is to work only and never to the fruit thereof. Do not be the cause of the fruit of action; nor let your attachment be to inaction' [19]. It does indicate that, if we anticipate the fruit/result, we may tend to manipulate the process of and/or interventions of the work towards the desired or anticipated fruit/result through even unethical means. The embodiment of Dharma directs us to perform our prescribed duty without anticipating the results in order to prevent us from involving in unethical acts. Lord also stated that you are not the cause of results.

Dharmic approach, thus states that one should act ethically and perform prescribed duty without considering the result of the action. It enables people to think of perfectness in carrying out the prescribed duties. If we think of outcomes either before acting or in the process of action, we may tend to manipulate the activities as well as interventions in order to achieve the planned outcome rather than performing the activity perfectly. Performing prescribed duties without thinking of outcome enables the people to perform the activities perfectly that includes morality. Therefore, dharmic approach enables people to perform activities with perfectness including ethically and positive intention that result in ethical acts. Performing un-prescribed duties may amount to doing actions with wrong intentions and results in unethical acts. Thus, an action may be regarded as ethical if its intention is right.

**Deontological Approach** According to deontological approach, ethics is based on intentions of the person who makes decision but not the actions or their consequences, as actions are uncertain. It can be viewed that deontological approach is of the same view of dharmic approach. Immanuel Kant also emphasises on performing correct acts and proper means [20].

**Rights Approach** Under this approach, individuals must personally use ethical behaviour in order to achieve the goal.

**Justice/Fairness Approach** Justice/fairness approach aims at treating all people fairly and equitably.

**The Common Good Approach** The common good approach aims at following the common social norms uniformly.

**The Virtue Approach** This approach is based on normative principles. Normative principles emphasise on ethical action and are concerned with the criteria of what is morally right and wrong [21].

**Utilitarian Approach** Utilitarianism – a theological theory. It states that if an action produces positive consequences, it is regarded as ethical and vice versa. This approach states that 'act in accordance with rules fashioned on utility.' Businesses

can use this approach in making and implementing its decisions in such a way that they should benefit a larger number of people in each of the segments of stakeholders.

**Professor:** All of you should note that ethics is situational, in the sense that what is ethical in one situation need not be ethical in another situation.

Now, let me explain what business ethics is.

## What Is Business Ethics?

We can't say that ethics and business ethics are the same. We have to judge what is right and what is wrong in each of the business activities/situations. Business ethics may be viewed as interpretation of norms, ethical principles and ethical standards to all areas of business decisions, activities and practices. It moulds the corporate behaviour towards ethical behaviour to benefit all stakeholders in a balanced manner due to them. Thus, business ethics may be viewed as application of norms, moral values and standards to all operations of business [22]. Business ethics is a 'set of corporate values and codes of principles, which may be written or unwritten, by which a company evaluates its actions and business-related decisions' [23].

Business ethics of an organisation emerge from ethics of employees, executives, customers, regulators and all other stakeholders, organisational codes and codes of professional organisations and from the legal system and its enforcing agencies. These moral and ethical standards guide the business organisations in practising ethics as well as during ethical dilemmas [24].

## Business Dharma

'Business dharma' may be viewed as application of principles of dharma in business decisions, practices and activities, in other words, doing business in a correct or morally upright manner and performing rightful and prescribed business activities as per the vision and mission of the organisation and practising behaviour considered appropriate as per dharma.

Thus, business ethics/dharma is viewed as application of ethical values and norms to the business activities and performing the duties as prescribed by the authority of an organisation like mission and codes.

## ***Scope of Business Ethics***

Business organisations have to perform a variety of activities starting from sourcing of all inputs, production, marketing and human resources, following the laws of the country where it is located and/or operated, contributing to the goals of the society and the like. Thus, business interacts with various sections of the economy and the society. Business performs a number of activities focusing on a variety of stakeholders who have conflicting goals and interests. The need for business ethics arises while meeting the conflicting needs of various stakeholders in a balanced approach.

Business houses produce goods/render services of large quantities contributing to the gross domestic product of the countries where ever they operate. The gross domestic product is not an end by itself. It is a means to an end, in the sense that it contributes to the satisfaction of human needs. Business allocates scarce resources among various production means with conflicting goals based on priorities. The need for business ethics does arise while allocating the scarce resources among the conflicting goals.

Therefore, business has to perform the activities more ethically to become causative to the welfare and wellbeing of all living beings at large which in turn contributes to the sustainable business development.

## **Business Ethics and Business Sustainability**

Business ethics, undoubtedly contribute to the sustainable growth of the business as various stakeholders like suppliers, market intermediaries, customers, employees and Government, would develop trust and long-run relationship with businesses, taking and implementing ethical decisions and operating ethically its activities concerning each of these stakeholders. In fact, customers continuously give business when ethical principles are followed in the activities concerning them like quality, price and delivery. Similarly, it is true with other stakeholders also. Therefore, we can say that sustainability follows ethical practices.

**Mr. Naresh:** Professor, I appreciate your idea/theory that ‘sustainability follows ethical practices’. Could you please explain the principles of dharma?

**Professor:** Thank you. Now, I will explain the virtues and principles of dharma, in addition to principles of ethics.

## Virtues of Dharma

Virtues of dharma in Hinduism include moral duties including speaking the truth, free from greediness, jealousy, anger, arrogance, lust, envy and pride. It also includes doing right things and rightfully assigned duties, conducting morally accepted activities, performing functions as per social order and serving various sections of the society particularly education, health, disadvantaged people and the like [25].

Virtues of dharma in Hinduism as integrated in atman theory by Dharmasutras and *Dharmasastras* are truth, sincerity, contentment, peaceful, gratification and compassion. It is also viewed that the one who follows these virtues of dharma becomes united with the Universal Self, i.e. Universal Brahman [26].

**Principles of Dharma** Vatsyayana during the fourth century stated the principles of dharma as charity and sacrifice, speaking the truth, compassion, being kind, behaving gently with others, talking and acting with right intention, serving others and the like [27].

**Hari Shankar:** Professor, we now learned the principles of dharma and ethics. Could you please explain the standards of ethics?

**Professor:** Yes, Hari. I am going to explain the same.

## *Standards of Business Ethics*

The basic standards of business ethics include the following:

- Follow human values in all areas and decisions of business.
- Business must not only be efficient in finance and dynamic in marketing but also in human aspects.
- The major purpose of all business activities is to meet consumer needs and to contribute in the long run to the wellbeing of the consumers and the community.
- Business should produce products that will not harm the consumer's health.
- Business should be based on the theory of trusteeship. Executives should act as trustees of all stakeholders of the business. Business should give top priority to service and only the next priority to profits.
- Business must be conducted legally and morally for the benefit of the people whom it serves.
- Business should not become the cause of water, air, sound and other kinds of pollution.
- Business should not exploit all kinds of political, social and cultural business environment for its advantage.

- Business should reconcile and harmonise the separate and conflicting responsibilities towards customers, employees, shareholders, government, suppliers, bankers, community and the like.
- Business should not contribute to the concentration of economic power in a few people and set monopolistic trends as such trends harm competitors, customers and other stakeholders.
- Business executives should perform the activities as authorised by the mission and objectives of the company.
- Business executives should provide accurate information to all stakeholders. They should not inflate facts as well as window dress.
- Education is to build the overall personality including character. Business firms in education should not be run on just business principles. They need to be run based on 'business with humane' principle. It does mean that businesses in the education sector should emphasise on humane more than the business principles. Hence, businesses in the education sector should not aim at short-run profits as well as high-level profits at any point of time. They should concentrate on creation and development of human capital/human resources for the long-run perspective of the country as well as for the wellbeing of the universe. Managements and employees of the education sector are expected to perform sacred activities.
- Medical and health sectors are to protect the human capital as well as basic life of living beings. Hence, business in these sectors is highly sensitive, and hence they should conduct business with more emphasis on compassion rather than profits. Thus, people in this sector should feel that they perform sacred activities.
- Providing service on voluntary basis should be treated purely as service. Therefore, NGOs and other service organisations and their staff should never treat their operations as business. In fact, their activities are sacred.
- Retail business should be viewed as retail, and hence, this sector should be viewed as employment generation and people engagement business rather than as a massive business to mint money by a few investors by creating monopolistic trend. Hence, business in this sector should balance employment generation, people engagement, service to customers, profits and the like.

### ***Ethical Issues in Global Business***

As mentioned earlier, principles of ethics and dharma are not universal. They are more situational and depend on a number of factors. Ethical standards and approaches vary from country to country due to variations in social and cultural factors, legal factors, economic and political factors and the like. As such, global businesses should understand that these factors in those countries they operate influence the pattern of ethical practices in different countries.

- Search for universal values that are more or less applicable to all countries and form the basis for their commercial behaviour.
- Understand the major religion in the host country as well as ethics that are derived from the religion.
- Understand the varying global standards with regard to quality-price matrix and fix price and quality ethically.
- Don't employ [child labour](#), and don't follow the practices of exploitative tactics like low salary levels and poor working conditions and benefits to staff.
- Consider host country's traditions and outlook with regard to outsourcing, licencing, franchising, contract manufacturing, etc. Global business should ensure that unethical practices should not be followed even in their franchising/outourced organisations.
- Don't involve in corruptive practices in any country of operation.
- Don't exploit natural resources of the host country based on commercial principles as well as short-run approach, as natural resources need to be used by generations to come.
- Utilise host country's resources for the production of goods for the consumption in the host country only. If the goods produced in the host country by exploiting natural resources are exported, the benefit of foreign exchange resources should be provided to the host country.
- Ensure that the water, food and other resources meant for the use of the communities in the host countries should not be used as raw material in production and services of the business for the purpose of exports.
- Don't use the ingredients in the production which harm the health of the customers of the host country.
- Follow religious norms of the host country strictly in case of producing and/or selling food products.
- Produce and supply high qualitative products particularly in case of food and pharmaceutical.
- Maintain safety norms strictly in case of oil and chemical industries in all areas of production concerning employees, customers, suppliers, market intermediaries and the community at large.
- Enter the foreign countries mostly through joint venture and collaborations with the business firms of the host countries and share the benefits with the organisations of the host country.
- Transfer technology and product innovations to the developing countries.
- Develop the managers and human resources of host countries and particularly of the developing host countries.
- Discharge the responsibilities to various social segments of the host country. These responsibilities include development of medical facilities and construction of hospitals, educational institutes, public utilities, drinking water, roads, etc.
- Donate medicines, books, computers and the like to the people, hospitals and educational institutes of the host countries.

- Market qualitative and economically appropriate goods to the customers particularly in developing host countries. Avoid marketing of outdated and spoiled products.
- Avoid marketing of those products which harm the health of the citizens of the host country.
- Avoid marketing of those products/services which do not have the compatibility with the culture (including religious aspects) of the host country.
- Don't lobby with other business firms in fixing price, quality, supplier and market intermediaries.
- Employ the local people to the extent possible and give them the opportunity to earn income and develop employable skills.
- Treat the foreign employees and local employees equally in offering salary, career advancement and providing the quality of working life.
- Don't involve in political affairs of the host country.
- Help the host government during the periods of natural calamities like floods, droughts, earthquakes, cyclones, etc.
- Don't bribe or corrupt the government officials of the host country.
- Pay taxes to the governments of host countries accurately.
- Maintain the accounts ethically as per the accounting standards.
- Maintain sound business relations with the market intermediaries, suppliers of raw materials, bankers and other financial institutions.
- Don't lobby with and corrupt auditors and regulators in all the countries wherever operations are carried out.
- Don't indulge in insider trading particularly in relation to selling of shares allotted to executives under stock-option schemes, etc.
- Don't use business resources for unauthorised purposes.
- Use the stakeholders' information exclusively for the purposes for which it is ethically meant.

## Conclusion

It is viewed that comprehensive personality is a basic requirement for practising business activities ethically as ethics is the higher order of all activities involving comprehensive personality of all concerned. Therefore, human resource formation and development from childhood in the path of ethics is essential. Scriptures and ancient heritage of various religions and societies emphasise these aspects. In addition, the education system should also contribute to impart and in-build value system in the personality of human beings in the process of human capital formation that makes the ethics and value system as a part of all activities of life including human capital development. Education can also contribute to positive behaviour by building character as character and ethics go hand in hand. In fact, education should impart wisdom.

In fact, we should understand from the trends of globalisation, competition and innovations particularly owing to the Fourth Industrial Revolution strides that inclusive of information technology strides and the concept of sustainability that basic objective of a business firm now is ‘sustainable development’, not ‘profit maximisation’.

At this juncture, we recollect the Lord’s preaching about dharma in Bhagavad Gita that helps the entire humanity particularly for those who are involved in the pursuit of economic and business activities like you.

In fact, you are all in the positions of leadership, power and authority. At this juncture Lord Sri Krishna indicates in Verse 21 of Chapter 3 of Bhagavad Gita as ‘For whatever a great man does, that very thing other men also do; whatever standards he sets up, the generality of men follow the same’. Employees of your organisations, their family members, small organisations and the rest of the society follow whatever ethical principles you follow as they see you as role models. Therefore, it is for you as executives and leaders to set trend for ethical business that prevents devastation and to pave the way for harmonious, peaceful, growing and enlightened society.

**Professor:** Participants, my plan is to deal with some business case studies initially and deal with important service sectors concerning human cause like education, medical and health, NGOs and retail sector later.

Against this background, now we proceed to study business ethics through business case studies relating to various companies in the forthcoming sessions.

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## Chapter 2

# Greed and Family Attachment



**Professor:** Dear participants of the Executive Development Programme, good day to you all!

**Participants:** Professor, good day to you too!

**Professor:** Thank you. We had quite interesting discussions on various aspects of business ethics and dharma in the previous session.

The best way of discussing ethics, based on my experience, is through case studies. We shall follow the same pedagogy in this programme also. Greed is the most important cause for practising unethical behaviour. Today we shall discuss about ‘greed’.

**Mr. Suresh:** Professor, I feel that my business case is appropriate at this juncture. Shall I explain about my organisation?

**Professor:** Mr. Suresh, you can proceed.

**Suresh:** Professor and my co-participants, my friends used to mention that I am ‘greedy’, but I used to think otherwise as ‘I create wealth’.

I still remember my childhood days when my elder brother used to take me to ice cream parlours and other shops to buy several items for both of us using his pocket money. I used to save and hide my pocket money. My elder brother used to buy several items for both of us using his pocket money during our childhood whereas, I used to save and hide my pocket money. I used to derive pleasure out of it.

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Note: The meanings of the verses of Bhagavad Gita are taken from Srimad Bhagavadgita, published by Gita Press Gorakhpur India, 2019, with permission from the publisher.

I reached a stage of funding my father when he had the heavy commitment of funding my brother's education. This made me proud and, of course, rich as my father had to pay double the amount borrowed. My father used to scold my brother and mother by quoting me as an example for how to save. Of course I saved out of my pocket money and also added interest. My father during the 1970s used to say: 'One rupee saved is one rupee earned'. This influenced me a lot. This way I saved plenty of money. I had around 100,000 rupees by the time I completed my high school.

I joined the Master Programme in Business Administration during the middle of the 1990s. These were the early days of liberalisation, privatisation and globalisation of India and also other countries. One of my lecturers, while teaching 'Business Environment', said that 'One rupee spent is one rupee invested now', in contrast to 'One rupee saved was one rupee earned until yesteryears'. I asked him for clarification as it was a bit contradictory to what I was told by my father. The lecturer kindly clarified that business opportunities are increasing now due to globalisation. Therefore, opportunities should not be viewed as 'cost centres' but as 'profit centres'. This explanation had shifted my view. Then I started using my savings as an investment.

I started a few businesses like 'man-on-wheels' to deliver food prepared by others and 'online marketing' for groceries while doing my master programme. Then I invested all my savings and borrowed some money from my father for these businesses. Of course my family had to make a lot of sacrifices by reducing their expenses. I started minting money and also creating wealth. I didn't allow my family to spend lavishly by controlling their expenses. I used to invest additional money by doing so. Everybody in the family was not happy, and they used to murmur. But my ears were deaf, and my mind was insensitive during such times.

I observed the environment and started a real estate business of buying and selling land, house sites, house flats, office buildings etc. I was successful in this business and started making more money. I have spread this business in all four states of South India. I created thousands of jobs and built buildings worth of billions of rupees. Of course I used to do business with my employees also. Don't get frightened when I say this. I used to pay less and get the highest human resource productivity or business per employee. My mother used to say 'it is a sin'. I used to reply, 'it is business and also service to the society as I created thousands of jobs and supported millions of family members'. My family members started to oppose me but not adamantly.

**Ram:** Professor, I have a question for Suresh.

**Professor:** Proceed.

**Ram:** Suresh, do you have another side of your face?

**Suresh:** Yes, Ram. I am going to tell you about the same.

Professor and friends, suddenly I got an idea about corporate social responsibility (CSR). Then I started thinking of mileage from different kinds of CSR. My father and brother were surprised to know 'what is the mileage in CSR'. They argued: 'CSR is just service to the society without expecting anything in return.' I said there is 'return everywhere and in everything', including service. Nothing is free in business. Then my father argued that then it is not service; it is business. I said it is business in service and it is called 'commercial social responsibility (CSR)', according to my lecturer. Then my brother said: 'Your lecturer and you are spoiling the motto of service.' I said it is modern-day business, nothing to do with my lecturer. It is taken from the business people and their practices.

I started hospitals and colleges as part of my social responsibilities. People enjoyed these facilities a lot. I again started making money from these social services also as the service is based on the amount the people pay. The cycle is repeated in the sense that I created jobs and started earning by serving the society, of course again business in job creation. Thus, I proved and have set a new trend of making money in every area, let it be business or service.

**Gopal:** Suresh, I couldn't understand. Please elaborate.

**Suresh:** Charge higher fee from students, pay less to the staff and get more work.

**Gopal:** Thank you.

**Suresh:** Professor and friends, I am proceeding with my case.

My mother requested me not to go for temples as part of my CSR. I got annoyed, but I cooled down as I may lose my energy if I argue with them. I also calculated how much time and energy I could spend on each of my transactions and also wasting emotions arguing with my family.

Days passed. I got married, and my wife was always surprised and annoyed at seeing my business practices. For me 'money is money, nothing else'. I didn't allow them to argue with that.

My old father used to say: 'My son, remember the last days of "Alexander the Great".' I used to say, 'Alexander the Great'. My father said: 'What is the use for mankind and what did he take with him at his end?' I didn't want to listen to the philosophy as I am a practical businessman.

My parents left this world. But my earnings continued. My service, of course commercial service and business in human resources, also continued.

My alma mater invited me to share my experiences with the students. I explained the mileage in CSR and proudly explained my concept of 'commercial social responsibility' while addressing the students. A young boy from a corner commented, 'it is commercial human resource management', when I was explaining how I earned money even in creating jobs. Subconsciously I said 'yes'. I saw the inspirational levels of the students and their bright faces. Somebody loudly said:

‘You are too much greedy.’ There was a little argument between this young boy and I, but I won and said it is the art of business.

However, I was surprised to see the newspaper the next morning. It published most part of my presentation but with a headline ‘Greedy Businessman’. Now I am annoyed with this boy who first coined me as ‘greedy’. Since then my wife, children and friends started addressing me as a ‘Greedy Businessman’!

Initially I started ignoring it, later took it easy and eventually accepted it as a ‘title’ because money is dearest to me. I didn’t want to lose track of earning money. I started winning again and again in my businesses.

I learned that there were export business opportunities in flowers and agricultural products from the Caribbean islands to the USA and Europe. I got relevant market research reports from consulting firms, which indicated excellent business opportunities. I sold most of my real estate firms and invested the money in export business in the Caribbean islands despite opposition from my family members.

I created employment for nationals to win over their confidence and at the same time to get advantage of tax savings and the low cost of human resources. This business crossed the teething troubles and started approaching a break-even point. Slowly adverse conditions started to appear. The first one concerns local culture and employees’ working culture. The employees were unable to cope with the skill requirements and the sensitiveness of the plants and micro-level precautions. The second problem related to crop disease due to climate change, resulting in a drop in the quantity of output as well as the quality of output. The third problem was something that suddenly sprung in the industry environment in Africa. The flower industry in Africa reached a boom stage with its cost advantage, as well as the suitability of soil and climate in Africa. This posed tremendous challenges to my company. I exerted all my efforts to meet these challenges. However, I was caught in acute financial crunches in view of these adverse conditions.

This was really a test for my skills and efforts in foreign countries. I didn’t leave any stone unturned to get out of these problems. But I was caught in the midst of all these and lost all my hopes and sold the company to national investors at a price nearly less than 5% of my initial investments.

## **Mr. Ram and Friends, Now I Explain the Third Side of My Face**

My body strength and my age created different scenarios. My stresses, emotions and frustrations resulted in physical and mental diseases. I started recollecting the words of the young student in my alma mater. I am ‘greedy’, as the young boy labelled! I also recollecting what my father told me about ‘Alexander the Great’. Of course I created wealth and jobs based on commercial thinking, but for whom, I

don't know. And I also recollected the stories of the 'Duck and the Golden Eggs' told by our primary school teacher. It is too late to do anything. But I consoled myself, saying that I was a business tycoon once. I wouldn't have become an entrepreneur and also a creator of jobs had I been a contented person. So though the people call me 'greedy', I feel that I was a creator of wealth.

Professor, am I correct?

**Professor:** Suresh, of course you are partly right. Thank you for presenting your case. Now, I explain.

### ***Why Are People Greedy?***

Greed normally results in wealth accumulation and/or gaining power. Of course greed is not necessarily exclusively concerned with money or wealth; it may be concerned with power, status, position, knowledge, network, relationship and the like. Greed helps to gain power and thereby wealth and/or vice versa. Why do people become greedy for money or wealth? Perhaps it is because of social, political and economic power, which are derived from wealth. However, some may argue that political power can't be derived from wealth. It might be true in some cases/countries. But it would be difficult to disprove that political power is not a derivative of wealth altogether. There may be some exceptions as some people who possess the least amount of wealth are politically and socially powerful. As far as social power is concerned, most of the financially wealthy people are socially powerful or are otherwise misers. Wealthy people can help others financially, provide jobs and other means of economic opportunities and gain social power and status. However, some economically poor people also become socially powerful by rendering service to the society. Wealth accumulation normally leads to economic power and status, like the top ten richest people in the World. So there is a purpose for people to be greedy. Some people are misers but not greedy, in the sense that misers save and don't spend much out of what they have. But greedy people grab the wealth that otherwise may be earned by others when the rules of the game are supposed to be fair.

### **Greed: Good vs Bad**

The belief that 'greed is good to build capitalistic economy' is perhaps widely accepted. The logic is that greedy people may accumulate wealth by grabbing the due shares of others in the process of supply chain and value addition. Therefore, wealth may be accumulated by a few beyond their consumption capacity, resulting

in capital accumulation and the growth of/recycling of investment. This in turn results in increased manufacturing facilities, production, employment, profits, growth in economic activity and so on and so forth.

Some further argue that there should be rich people, who could protect the interest of the poor, like the strong people in a tribe protecting the weak and the leaders protecting the followers through their tactics. They also use the example of chimps protecting monkeys. They support hierarchies in societies and economies.

Mr. Ivan Boesky, while delivering his address at the UC Berkeley's School of Business Administration on 18 May 1986, stated that 'Greed is all right, by the way. I want you to know that. I think greed is healthy. You can be greedy and still feel good about yourself.' [1]

But the thought of many may be that 'greed is not good at all' as greedy people may earn by unethical means as well as may not allow others from using their resources or their due shares. In fact, greedy persons may not be able to use all the resources they have as they have them in surplus but at the same time may prevent others from using these existing resources for their basic needs.

But the reasons stated above and, in particular, Ivan Boesky's views divert people's earlier thinking that greed implies negative connotation. The other thought is that 'greed' performs some functions like inspiring entrepreneurship, helping capital formation and accumulation, increasing investment and economic development. As all wealth accumulated by capitalists may not be consumed by them, they invest to grow their wealth further. This investment performs further economic functions and helps the country to grow economically, in addition to creating employment. Thus, greedy people may contribute to wealth creation.

**Suresh:** Professor, can I share one of my experiences?

**Professor:** Suresh, proceed.

**Suresh:** Now I am recollecting a lecture delivered by one of my professors in 1975. My professor said more or less the same thing while dealing a chapter on 'Capital Formation' in the 'Industrial Organisation' course. In fact, our professor didn't deal with 'greed'. Therefore, what I viewed was that capital accumulation without 'greed' may perform economic functions, stated above, without exploiting customers, employees, the society, bankers and creditors. But the maximisation of capital accumulation may be possible with 'greed'.

However, I am getting a nagging doubt about how capital accumulation could be possible without 'greed'. This nagging doubt is pushing me to recall my professor in Marketing, who taught a number of concepts like need, want, demand, desire, passion, ambition, aspiration and greed.

Professor, please clarify the difference between greed and ambition.

**Professor:** Suresh and other participants, it is a good question. I explain.

## *Ambition and Greed*

In a way, greed and ambition are achievement motivators to come up with a business. But greed by itself is out of selfish desires and hence is viewed as bad and negative. Ambition, on the other hand, starts with a good intention to do well and is positive by nature. But only when ambition takes an intensive form and the individual wants to succeed at any cost and by any means would it have the potential to fall into the category of greed. A person with greed may try to achieve success by any means and at any cost, whereas a person with ambition may try to achieve it by employing his or her fullest potentialities but not by any means and at any cost. Thus, a person with greed may tend to resort to unethical means. This is because the means to an end are also equally important as the 'end'. While motivation is helpful, the means are necessary to ensure that the individual is within ethical limits to reach the end result.

The source for greed and ambition is physiological, sociological and psychological desire. For example, physiological desire leads to thirst and hunger. These are converted into needs, like water or food. Sociological deficiencies lead to needs like social relations and belongingness, while psychological deficiencies lead to esteem needs like power, recognition, achievement and distinction. When the need becomes strong, it takes the shape of want. For example, if a candidate has a strong need to get a job and exerts all efforts and uses all his/her energies to get the job, it is viewed as want. In this case, the candidate wants a job rather than is in need of a job. The candidate is deemed to be ambitious if he/she thinks that he/she should get the job to the maximum extent based on his/her suitability to the job. In contrast, the candidate is deemed to be greedy if he/she thinks that he/she only should get the job by any means and at any cost by grabbing others' chances/due shares. Therefore, if the strong want is converted into 'greed' with selfish motives, then it is viewed as unethical.

Ambition by itself is good as it inspires and motivates an individual to do better on his/her own. But it should not become greed or a selfish motive by thinking that only he/she should get it at any cost or by any means and by grabbing others' chances or share. Ambitious people allow others to have their due share in the opportunities as they don't want everything for themselves. Ambition is not unethical, whereas greed is viewed as unethical as it involves grabbing others' due shares. Thus, it should be understood that the line between 'ethical' and 'unethical' is very thin.

**Suresh:** Professor, thank you. Now I got a clear idea that both 'greed' and 'ambition' lead to capital formulation and economic development through the process of value creation and value addition. While greed does this function by exploiting others/grabbing others' due shares, ambition does the same by ethical means, allowing others to have their due share and to grow as well. In other words, ambition helps for the distribution of resources due to the stakeholders. This distribution process

creates a demand for goods and services and hence helps in economic development on the basis of the multiplier effect. But greed emphasises on accumulation and hence does not allow for the distribution of resources according to the shares due to the stakeholders. As such, it may prevent a multiplier effect and also a balanced and sustainable economic growth. In addition, ambition may help to achieve a higher and balanced economic growth, whereas greed may lead to limited economic growth as increased production may not be consumed due to the concentration of resources in the hands of the greedy people.

**Professor:** Suresh, you are right. For example, when the owner of a business earns a lot and pays his/her employees their due share and the suppliers their due input and charges a reasonable price from the customers, it is a fair deal. In this case, we can't call the businessman greedy as he is not accumulating wealth for himself, even though he earns a lot. The businessman in this case is an ambitious person who has a desire to achieve a large amount of profit.

Similarly, some companies earn a lot but also spend a large portion of their profits to create a social impact, like Toms and One Hope Wine. We can't label such companies as greedy as they more or less duly distribute their earnings. Earning a lot but duly distributing to all concerned is an attribute of ambition but not of greed.

## **Greed Is the Embodiment of Selfishness and Badness.**

**Suresh:** Professor, thank you.

Now it is clear to me. I categorically disagree with Ivan Boesky as greed is completely selfish. Ambition may result in greater good and the welfare of all. Ambition may also lead to higher and balanced economic development, but greed may lead to limited and imbalanced economic development. Greed results in the growth of one party at the cost of exploiting others by using unethical modes.

**Professor:** Friends, you understood the difference between greed and ambition. Let me explain further.

Mehar Baba indicated that greed is an emotional and restlessness state of mind. Baba dictated that greed is concerned with craving for power and possession for the purpose of gratification of desires. Satisfied desires result in the emergence of other new desires as people can never be satisfied with desires. Thus, greed is never-ending. Consequently, greed never leaves people satisfied [2].

It is further clear that greed results in acquiring not only money but also position and power, as indicated above. Anyhow, these three, viz. money, power and position, are interdependent, and one may be derived from the other.

Greedy people may grab resources that are limited in supply in order to satisfy their needs and/or wants at the cost of others or deny others from enjoying their due share. In addition, they may store/hoard these limited resources for their future con-

sumption/security by snatching others' due shares. In other words, the greedy people satisfy even their security, social and esteem needs at the cost of others' basic physiological needs. Thus, they may deprive others' current basic and survival needs and their future opportunities. They obstruct others from getting their due share in the resources. Greedy people may also grab others' opportunities for social relations and opportunities to satisfy their esteem needs in order to enjoy a special social status and recognition of achievement more than they deserve. In other words, they may enjoy recognition more than they deserve by depriving others of having their due share. It does mean that greedy people may not hesitate to resort to unethical means while grabbing others' due shares in current resources and future opportunities.

## How Did Greed Blow Up in the Corporate World?

Gordon Gecko, who gave his speech in 1987, felt that 'CEOs' salaries were tiny compared with today's lavish packages. Executives didn't focus single mindedly on maximizing stock prices; they thought of themselves as serving multiple constituencies, including their employees.' But 'these days we are so steeped in greed-is-good ideology that it's hard to imagine that such a system ever worked'. [3]

'Management theory' provides that incentives are provided to the top executives of the corporate world with a view to enhancing the company's profitability in terms of innovation, operational performance, human resource efficiency, profitability, shareholders' wealth and thereby stock price. But the 'management practice' of executives took a different shape, in the sense that executives took the complete shortcut of the management theory/process. Through their privilege of having insider's knowledge, they manipulate financial information and artificially boost stock prices through window dressing of financial statements without improving corporate performance, or even at the expense of diminishing corporate performance in some cases. They do all kinds of window dressing by fabricating data and information in order to get incentives rather than improve corporate operational and financial fundamentals and get eligibility for incentives. These incentives help them to further window dress to boost the market price of their shares and then download them before the real situation is known by the public or even by the owners/shareholders. We can discuss the Satyam Computers Limited's scandal, which was widely covered in the media, as an example here.

**Narayana:** Professor, it is good that you have mentioned as example Satyam Computers Limited. Please explain its relation to greed.

**Professor:** Narayana and other participants, be patient for some time. I will explain.

Greed for incentives and windfall profits generated by incentives may motivate the executives to cheat everyone down the line, including the shareholders, the cus-

tomers, the employees and the community. Political lobbyists may sometimes take part in these unethical means of earning, along with the corporate executives, for example by receiving corporate donations from political parties [4]. It was felt that most of the scams and thereby the economic downturn in the USA were the result of the incentives provided to CEOs and other top managers.

### ***Greed Led to Collapse?***

Now we recall the agency system in the corporate world. Owners used to have the desire for profit maximisation. This desire has to be fulfilled by managers, who are agents of the owners. The managers before 1980s were meeting the needs of all stakeholders and didn't fully work for the maximisation of shareholders' wealth. The idea of incentives in the form of stock options given to the CEOs and other top executives was introduced prominently during the 1990s in order to motivate the CEOs to maximise shareholders' wealth rather than maximise the well-being of all kinds of stakeholders. These incentives might have helped shareholders to get the maximum benefit for themselves for some time. Later, this might have prompted the greediness among the CEOs and other top executives to make a lot of money for themselves rather than for the shareholders. It does mean that the idea didn't work in the direction it was fabricated by the shareholders. CEOs, rather than maximising the shareholders' wealth through improving the fundamentals of organisational profitability, might have artificially improved profitability to get more shares under stock option and artificially inflate share prices with a view to maximising their own wealth by downloading their individual shares acquired through stock option incentives before they quit the company/it was known to the owners/shareholders and the public. Thus, there might be elements of unethical practices of window dressing in artificially boosting profits and share prices for the benefit of getting more shares and/or downloading them without caring for the losses to be incurred by all stakeholders and then quitting the organisation and grabbing similar opportunities in other organisations.

It was felt that this purported greed of CEOs and top executives led to scams and the collapse of some companies, like Satyam Computers and Enron.

The issuance of strict guidelines to the heads of audit committees by the Financial Services Authority in the UK resulted in the reduction in the scope for greed by CEOs and top executives and a decline in the creation of scams in the UK. But the chairmen of these committees were not full-time officers and do not have their own offices. Therefore, the implementation of the guidelines of the Financial Services Authority was put in question. However, due importance was given to audit committees in the UK, though it was not the case in the USA, until the collapse of Enron. Thus, external auditors need to play a critical and a more serious part in detecting the possibility of designing fraud to stop the greed of managers.

The carrying out of non-audit work by audit firms caused them to be lethargic in carrying out the core activity of auditing. The sale of research work by underwriting firms, like firms' ratings, might be another factor that contributes to fraud [5].

### ***Greed, Recession and Environmental Damage***

People who argued that greed fuels the economic growth of a country lately realised that it, in fact, resulted in scams and thereby deep and long-lasting economic recession and crisis, which in return led to a colossal waste of resources as well as relationships and trust. In addition, they recently realised that greed might have led to environmental damage, deforestation, raising sea levels, desertification, ocean acidification, species extinctions and so on [6].

**Suresh:** Professor, now it is clear to me that greedy people also contributed to economic turbulence, colossal waste of resources and environmental damage, in addition to harming the helpless people who lead an ethical life.

**Professor:** Let me explain further. Greed causes some people to earn money that is more than sufficient for their entire life and the life of their children and grandchildren. This cushion may make the next generations unproductive and resort to anti-social activities. Added to this, greed makes people mostly unethical [3].

### ***Greed and Psychology***

This analysis further gives rise to another issue. Is greed derived from physiological or sociological or psychological factors? Now it is relevant to briefly speak about Abraham Maslow's theory of hierarchy of needs. As almost all of you know, he identified five types of needs in the order of physiological, security, social, esteem and self-actualisation. Greed, like ambition, helps in satisfying the first four levels of needs.

Is greediness due to 'psycho-unethical anxiety' of oneself? I use the word 'psycho-unethical anxiety' to denote a state of psychological anxiety for unethically accumulating wealth or power or position that duly belongs to others in order to enjoy special recognition and/or future economic security. I say it is 'psychological anxiety' because people grab some things even when they're not needed for current use. The reason for me for posing this question is that people grab others' resources even when they're not required for their current needs when others are actually in current need of such resources for their survival or for satisfying their basic necessities. Why do people grab others' resources even when they don't need them? This is because society especially recognises and respects people who possess resources/opportunities more than what they need as they may spare such resources for them

in the name of ‘helping’ others. Society calls such people as rich/influential/opportune/lucky/foresighted people. People assume a higher social status when they become rich. Thus, it is psychological anxiety. I use the term ‘unethical’, owing to the fact that greedy people may grab others’ due shares in resources and future opportunities.

Therefore, people become greedy in order to have special recognition in society, in addition to having economic security from future uncertainties/contingencies/risks/turbulence. Actually, ambitious people do also have psychological anxiety. They don’t grab others’ shares unethically. They earn the resources they enjoy or create opportunities for themselves as well as for others. But it may be said that ambitious people have ‘psycho-ethical anxiety’, whereas greedy people have ‘psycho-unethical’ anxiety.

### ***Can Greedy People Be Self-Actualised?***

**Narayana:** Professor, now I have another question relating to Maslow’s highest hierarchy of needs, i.e. self-actualisation needs. My question is: Do greedy people resort to similar unethical means to grab others’ opportunities in order to satisfy their self-actualisation needs also? I would like to get some clarification about ‘self-actualisation needs’ before you answer the question.

**Professor:** Good. I will clarify. According to Maslow, self-actualisation occurs when an individual realises his/her potentialities to the maximum extent. Maslow felt that some people like Abraham Lincoln, Albert Einstein and Thomas Jefferson are self-actualised, and hence he studied them to find their common characteristics. Self-actualised people, according to Maslow, (i) hold on to the strange and the vague; (ii) consent to themselves along with all their faults; (iii) prefer and relish the process not just the goal/outcome; (iv) are fundamentally progressive and prefer to be calm and comfortable; (v) are inspired by advancements (grow to perfection); (vi) have a purpose in life; (vii) ignore petty problems and concentrate on the core and significant things; (viii) are grateful; (ix) prefer intense relationships with a less number of people rather than becoming a universal friend as they believe in the saying ‘a friend to everybody is a friend of nobody’; (x) are humble; (xi) resist enculturation (these people prefer following individual ethics to social codes); and, (xii) despite all this, may not be perfect [7].

In fact, Milton Friedman argued that greed can’t be eradicated, but a mechanism may be developed to bring the harm caused by greed to the least extent [6]. In contrast to Milton Friedman’s views, we can say that people can be ambitious rather than greedy as greed is accompanied by unethical practices as greedy people may harm society. Greedy people may enjoy recognition, richness, power and position by deceiving others. It may mean that people with anxiety for recognition but who

are incapable of achieving such recognition through positive means or competencies resort to unethical means. Greedy people have psychological anxiety for recognition and fulfil that anxiety through unethical means as they may be incapable of doing so through ethical means. Hence, greed might be the result of ‘psycho-unethical anxiety’.

**Narayana:** Professor, now it is clear that greedy people can’t strive to satisfy their self-actualisation needs as they may not possess the first eleven characteristics listed above, particularly being ethical. So my earlier question doesn’t follow.

**Professor:** Narayana, good. I further explain.

Ambition and greed work in the same direction but with different intentions in satisfying physiological, security, social and esteem needs. It means that ambitious people derive satisfaction but greedy people are never satisfied. Ambitious people strive to satisfy their self-actualisation needs depending on their capabilities. Greedy people may not aspire for self-actualisation as they may not possess the characteristics needed to be self-actualised. In addition, the achievement of self-actualisation requires self-capabilities, determination and commitment and the use of ethical modes rather than unethical and bullying tactics.

**Suresh:** Professor, it is clear to me that greed is not conducive as it resorts to unethical modes. Greedy people may not be self-actualised. Their achievements are also manipulated through unethical means. They may not make distinctive contributions to their profession, the economy and the society as greed is a ‘psycho-unethical anxiety’.

**Mukund:** Professor, why is a ‘self-actualised person’ significant?

**Professor:** Mukund, good question. Let me explain. The process of fulfilling self-actualisation requires the realisation of one’s own strengths, weaknesses and potentialities. In addition, it requires one to realise one’s own self in terms of the purpose of one’s own life, treat the entire humanity equally, strive for perfection, focus on an ‘integrated long-term system’ rather than a short-term aspect and/or a fraction of it and visualise a mutually interdependent system, rather than a fragmented system, and a mutually inclusive and sustainable and impartial distribution of benefits to all fragments of the system. The self-actualised person understands both positive and negative aspects of himself/herself and appropriately develops the positive aspects and eliminates the negative aspects. In addition, the self-actualised person can’t think of grabbing others’ due resources or opportunities. They try for perfection by being ambitious rather than by being greedy as they are thinking about an integrated and interdependent mutually inclusive and sustainable system.

In a nutshell, a self-actualised person or people thriving for self-actualisation can’t think and behave like greedy people. Let me quote some verses from Bhagavad Gita relating to greed.

*Dharmatman* Lord Sri Krishna mentioned about greed in different situations while preaching Bhagavad Gita to Arjuna. I quote some of the important verses from Bhagavad Gita that deals with greed, as presented in Exhibit-2.1. I present the meaning of the verses as provided in Srimad Bhagavadgita, published by Gita Press Gorakhpur, India, 2019.

### **Exhibit-2.1: Meanings of Important Verses from Srimad Bhagavadgita That Deal with Greed**

Chapter 3, Verse 37: ‘The Bhagawan said: It is desire begotten of the element of Rajas, which appears as wrath; nay, it is insatiable and grossly wicked. Know this to be the enemy in this case.’

Chapter 3, Verse 38: ‘As fire is covered by smoke, mirror by dust, and embryo by the amnion, so is knowledge covered by desire.’

Chapter 3, Verse 39: ‘And, Arjuna, knowledge stands covered by this eternal enemy of the wise, known as desire, which is insatiable like fire.’

Chapter 3, Verse 40: ‘The senses, the mind and the intellect are declared to be its seat; covering the knowledge through these, it (desire) deludes the embodied soul.’

Chapter 3, Verse 41: ‘Therefore, Arjuna, you must first control your senses, and then kill evil things which obstructs Jnana (Knowledge of the Absolute or Nirguna Brahma) and Vijnana (Knowledge of Sakara Brahma or manifest Divinity.’

Chapter 3, Verse 43: ‘Thus Arjuna, knowing the self which is higher than the intellect and subduing the mind by reason, kill this enemy in the form of desire that is hard to overcome.’

Chapter 5, Verse 22: ‘The pleasures which are born of sense-contacts, are verily a source of suffering only (though appearing as enjoyable to worldly-minded people). They have a beginning and end (they come and go); Arjuna, it is for this reason that a wise man does not indulge in them.’

Chapter 14, Verse 17: ‘Wisdom follows from sattva, and greed, undoubtedly, from Rajas; likewise, obstinate error, stupor and also ignorance ensue from Tamas.’

Chapter 16, Verse 21: ‘Desire, anger, greed-these triple gates of hell, bring about the downfall of the soul. Therefore, one should shun all these three.’

Chapter 17, Verse 25: ‘With the idea that all this belongs to GOD, who is denoted by the appellation “TAT”, acts of sacrifice and austerity as well as acts of charity of various kinds, are performed by the seekers of liberation, expecting no return for them.’ [8]

Source: Srimad Bhagavadgita, Gita Press Gorakhpur, India, 2019.

Lord Shri Krishna emphasised the word ‘Lust’ in Chapter 3 of ‘Karma Yoga’ and the word ‘Greed’ in Chapter 14 of ‘Three Modes of Material Nature’ of Bhagavad Gita.

**Kiranmayi:** Professor, I would like to know the various phases of formation of greed as Lord Sri Krishna mentioned in Verse 17 of Chapter 14 that ‘from the mode of “Rajas”/“Passion”, greed develops’.

**Professor:** Kiranmayi, wonderful question. Let me explain.

Initially I thought that physiological, social and psychological deficiencies develop or take place in almost all human beings. Later on I realised that spiritual deficiencies do also take place in some human beings.

The initial stages of these deficiencies may be termed as ‘desires’. Desire is a feeling of having something or wishing for something to happen. Intensified desire becomes need. The dictionary meaning of need is to ‘require something because it is essential or very important rather than just desirable’. [9]

Intensified need becomes lust. Lust is a strong want involving an emotion to fulfil something [10]. Further, intensified lust becomes passion/‘rajas’.

I feel that intensified passion becomes greed. Greed is an excessive desire/want to obtain ceaseless things beyond one’s own needs [11]. Greed is a desire/want for endless accumulation of wealth and power. I am doubtful whether it would be possible to accumulate wealth endlessly following ethical principles. I hope ambition may help to accumulate wealth following ethical principles, but not endlessly. Ambition is a motivated desire with a determination to achieve and/or succeed [12]. Thus, ambition may help in achieving something.

As I explained earlier, there is a significant difference between greed and ambition, even though both of them are backed up by desire. Ambition is achievement motivation based on an internal drive, whereas greed denotes the acquisition and possession of what is more than one’s needs, depriving others. Thus, ambition is positive and greed is negative.

I hope I made the concepts clear.

**Sukanya Devi:** Yes, Professor. Now I want to know the different stages of the formation of greed. In fact, I am repeating this question.

**Professor:** Good, Sukanya Devi. I realised it, and I will explain it now with an example.

The first stage is desire. How do people gain desire? Desire is the sensation of possessing something or wanting a certain incident to happen. Do people get the feeling of wanting to have something because of their physiological anxiety? The answer to this question is ‘not necessarily’, as some desires, like belongingness in a group and society, are social deficiencies and achievement, recognition etc. are psychological. Physiological, social and psychological deficiencies are internal to one, causing desires.

I have observed that people, including myself, may at times develop anxiety by observing or watching others. In other words, deficiencies are formed when we observe or watch people who possess something that we don’t possess. For example, one of our colleagues was traveling by public transport most comfortably along with us, but he developed a desire to buy a four-wheeler when his neighbours bought and were driving four-wheelers to their respective offices. But his salary was not enough even to meet his basic needs at that time. We might have observed several such incidents. It does mean that external forces are also responsible for the forma-

tion of desire. Desire, when it is intensified due to internal forces like self-deficiencies and external forces like observations of others and influence of others, becomes need in the sense that it becomes essential or very important rather than just desirable. For example, our colleague's desire to have a four-wheeler became a need when he was influenced by his continuous observation of neighbours possessing four-wheelers. It is also true in the case of other needs, such as security needs, like earning money today for tomorrow's requirements; social desires, like developing friendship with other people to share happy as well as sorrowful incidents in life; and also psychological desires, like becoming distinguished in the community.

Our colleague had a need to buy a four-wheeler, but he didn't have enough money to buy it. His wife and children also expressed the same desire when they were watching day in and day out their neighbours driving four-wheelers with their families to various social events. This need got intensified and became lust/want when my colleague's family members started asking him time in and time out for the same. I repeat the meaning of lust. Lust is a deep want for an object or for situations to realise the emotion. My colleague was experiencing a similar thing, and in fact his family members had continuously forced him to buy a four-wheeler.

This unfulfilled lust/want, which was forced upon him by his family members, compelled him to start a business to earn and buy a four-wheeler. The intensified lust in him developed into passion. Let me give the meaning of passion once again to remind you. Passion is an ardent [emotion](#), an enthralling zeal or a [desire](#) for something.

He earned money in his business, and he bought a four-wheeler. He enjoyed a status in society and started earning lots of money through unethical means and bought six cars, though the number of his family members was only four. And he used to change cars as and when new models arrive in the market. He bought more than what his family needed, not only cars but also other assets. I hope he is greedy now, not just for cars but for much more. His passion for buying one car was intensified, and it became greed. Let me provide again the meaning of greed. It is an excessive desire to obtain ceaseless things beyond one's own needs. The degree of excessiveness refers to the re-formation of further wants again and again once the existing wants are fulfilled.

Uncontrolled desires transform into greed, as shown below.

Desire→Need→Lust (Strong Want)→Greed  
Wrath

Greed-formation process

## Greed and Truth

Though almost all of us know that greed is bad, we still prefer to earn much more than what we need. This is because of lust/want. As such, *Dharmatman* Sri Krishna *Bhagawan* in Verses 37–43 of Chapter 3 of Karma Yoga indicated that lust creates

contact with the material world and makes us feel more comfortable, secured and powerful, which in turn brings recognition and a sense of achievement in this material world. As Lord Sri Krishna indicated, we fail to use our intelligence to recognise the reality that all the derivatives of lust are not permanent and hence most of the inner and original purposes of lust can't be achieved. In fact, the hard facts of history testify what Lord Krishna said about lust and greed.

For example, the descendants of King Akbar led a miserable life in Kolkata.

Sultan Begum, daughter-in-law of Bahadur Shah Zafar's great grandson, who was defeated by the British in 1857, lived in a hut in Kolkata. The descendants of Mughal Emperor/King Akbar led their life on a pension of £60, though they were expected to lead a luxurious life as their ancestors ruled a wealthy empire. Sultan Begum and her children struggled to meet both ends on a basic pension. She was doing business of selling tea and traditional female garments [13].

I am not indicating here that King Akbar was greedy. But I would like to indicate that whatever King Akbar earned and accumulated in his lifetime did not become available to his descendants for them to lead a comfortable life. I would like to state that whatever we earn more than our current needs may not be enjoyed by our descendants. Thus, the purpose of greed may not be achieved in the long run. We fail to observe this truism and ignore the consequences of the outcome of lust despite several such historical truths.

Why do we ignore the truth or disbelieve our own intelligence? Lord Sri Krishna in Verse 38 of Chapter 3 of Bhagavad Gita indicates that 'As fire is covered by smoke, mirror by dust and embryo by the amnion, so is knowledge covered by desire'. It does mean that lust makes us ignorant of the truth that we cannot share the rest of our earnings with our decedents. Therefore, we accumulate wealth more than our needs.

It is felt that 'lust' is endless and people with lust get burnt in it. It is felt by many that Mr. Ramalinga Raju of Satyam Computers is a living example of how lust burns people. We now discuss the case of Satyam Computers Limited, as I mentioned earlier.

## **Satyam Computers Limited Case and Greed (as Reported in the Media by Investigating Agencies)**

Mr. Byrraju Ramalinga Raju founded Satyam Computers Limited. He was from a farming family who obtained his Bachelor of Commerce degree from India and Master of Business Administration degree from [Ohio University](#), USA. He established Dhanunjaya Hotels and Sri Satyam Spinning Mills funded by Andhra Pradesh Industrial Development Corporation (APIDC) with an investment of Rs. 8 crores [14]. After the failure of Sri Satyam Spinning Mills, Mr. Ramalinga Raju established Satyam Constructions. Thus, he shifted his industry from hotels to spinning mills and to real estate before venturing in information technology [15].

Satyam Computers Limited was incorporated by Mr. Raju and his brother, Mr. Rama Raju, on 24 June 1987.

Satyam Computers Limited was built on sound and modern management practices, like (a) value for employees, work for excellence, entrepreneurship and customer service; (b) organisation structure based on strategic business units making each major department a strategic business unit responsible for efficiency and profits/losses; (c) making the customer the centre of all its initiatives; (d) the 5Cs approach, viz. communication, collaboration, competency enhancement, customer intimacy and competitive edge; and (e) belief in and the practice of corporate social responsibility through 'Aambana', an umbrella organisation that provides community services in the areas of education, health and environment in urban, semi-urban and rural places [16].

But the company became a victim of scandal adversely affecting all stakeholders. Now I explain in detail this scandal.

It is viewed that this case was a major unethical case that affected investors relentlessly and shattered the name and fame of the country in the global economic circle. The scam was done by fabricating financial statements, bank deposit certificates and other documents and by deceiving intelligent members of the board, internationally renowned credit rating agencies and auditors.

The Central Bureau of Investigation (CBI) filed first charge sheet against Satyam for "offences of criminal conspiracy, cheating, forgery and falsification of accounts." [17]

## ***Background***

As mentioned, Satyam Computers Limited was incorporated by Mr. B. Ramalinga Raju and his brother, Mr. Rama Raju, on 24 June 1987.

The significant achievements of the company are as follows:

1. It had a public issue offering on the Bombay Stock Exchange in 1991.
2. Four subsidiaries of Satyam Computers Limited, viz. Satyam Renaissance Consulting Limited, Satyam Enterprise Solutions Private Limited, Satyam Spark Solutions and Satyam Infoway Private Limited, were started in 1996.
3. Satyam bagged a number of highly rewarding awards and world-renowned certificates.
4. It got its first Fortune 500 client, Deere and Company.
5. It was listed on the New York Stock Exchange.
6. It was ranked as an exporter after Tata Consultancy Services, Infosys and Wipro in India.

7. Satyam Infoway (Sify) was listed on the National Association of Securities Dealers Automated Quotations (NASDAQ).
8. It opened its offices in Singapore, Dubai and Sydney.
9. Its number of employees grew from 20 to 50,000, and the number of countries where it operated grew from 1 to 67.
10. MZ Consult recognised Satyam as a leader in corporate governance and accountability in India on 14 April 2008.
11. The World Council for Corporate Governance awarded Satyam the 'Global Peacock Award' for global excellence in corporate accountability in September 2008 [18].
12. Despite the scam, Mr. Ramalinga Raju has a philanthropic mind. He established [Byrraju Foundation](#) in 2001 and provided services in the areas of health-care, sanitation, primary education and adult literacy in rural areas.

## Problem in Perspiration

Satyam was preparing the background for its fraud in its backyard while exhibiting its achievements, presented above, at its front desk. In fact, it received prestigious corporate governance awards in the international scenario while cooking a quite opposite scenario at home.

For example, Mr. Raju, on 16 December 2008, announced his decision to acquire two Maytas companies, i.e. Maytas Infrastructure Ltd and Maytas Properties Ltd, for \$1.6 billion, saying that he wanted to deploy the cash available in the company for the benefit of investors [18], notwithstanding the worries elevated by independent board directors about diversification into an unrelated, risky sector rather than sticking to its core competency and about valuation and other issues [19].

It was stated that the independent directors also got the information through a whistle-blower, former senior executive Mr. Jose Abraham, on 18 December 2008. Mr. Raju's two sons floated [Maytas Infrastructure](#) and [Maytas Properties](#) (the word 'Maytas' is a reverse of the word 'Satyam'). It was claimed that Mr. Raju manipulated the accounts of Satyam to show surplus cash with an ulterior motive of acquiring the two Maytas to help his two sons or of diverting the resources of Satyam to his sons' companies. In a befitting manner, the move was outright rejected by the board of directors as well as investors.

The share prices reacted because of concerns about Satyam's corporate governance. It was also stated that Satyam Computers was banned from dealing with the World Bank, which took effect from 23 December 2008 and lasted for 8 years, because of issues of stealing data and corrupting its employees. The independent directors quit the board.

It was reported that Mr. Ramalinga Raju, on 7 January 2009, admitted that he manipulated their finances worth Rs. 7000 crores with an ulterior motive of buying Maytas.

The following unethical practices by Satyam were noticed:

- Overstatement of assets by US\$ 1.47 billion and presentation of non-existent bank loans for US\$1.04 billion
- Overstatement of income continuously
- Under-reporting of liabilities on its balance sheet
- Presentation of cash that was not existent in the balance sheet
- Creation of a number of bank statements
- Inflation of bank accounts
- Inflation of income statements by claiming interest income from the fake bank accounts
- Inflation of revenue through creation of fake customers and invoices
- Unlawfully securing loans for the company by the global head of internal audit by forging resolutions
- Non-presentation of cash in the balance sheet
- Diversion of company money to Mr. Raju's personal accounts
- Inflation of company's profitability
- Completion of 112 sale deeds, which were recovered by the Andhra Pradesh State CB-CID from the residence of Mr. Raju, who owned 4.3 per cent in Maytas Infra
- Diversion of a lot of cash to the remaining firms that Mr. Raju owned since 2004
- Increase of staff numbers by ten thousand and drawing of Rs. 240 crores per year, as confessed by Mr. Vadlamani Srinivas, chief financial officer at Satyam, on 22 January 2009
- Sidetracking of an enormous amount of money to Mr Raju's other companies
- Misleading audit reports submitted by the auditors of Satyam, who consequently confessed that such reports were based on misleading financial statements provided by the company

It was indicated that the Enforcement Directorate, on charges of money laundering, attached properties worth Rs. 1000 crores by 2010, such value belonging to Ramalinga Rau's family and others, and acquired 4000 acres of land in custody, which belongs to Raju's family and located in the Loyapalli village near Ibrahimpatnam of Ranga Reddy district in the state of undivided Andhra Pradesh and the current Telangana state in India.

The deceptive account statements compared to the account statements after the confession of Mr. Ramalinga Raju indicate that the negative balance of a reserve account of Rs. 415.47 crores was presented as a positive balance of Rs. 8392.23 crores. Unsecured loans were reflected as Rs. 234.80 crores as against Rs. 1464.80 crores. Sundry debts were shown as Rs. 2651.36 crores as against Rs. 490 crores. Cash and bank balances were presented as Rs. 5312.62 as against Rs. 272.62 crores. Interest accrued on fixed deposits was shown before confession as Rs. 376.34 crores as against nil stated after confession. In total, the net current assets before confession were shown as Rs. 6676.49 crores as against a negative balance of Rs. 901.21 crores [20].

In addition, Mr. Raju artificially increased the share price by means of insider trading and offloaded 3,90,75,440 shares owned by promoters and Mr. Raju's fam-

ily worth Rs. 3029.67 crores, according to the findings of the Serious Fraud Investigation Office (SFIO) from April 2000 to 7 January 2009. Consequently, the percentage of stock owned by Mr. Ramalinga Raju declined from 25.6% in 2001 to 3.6% in 2009. They used the money to purchase land in the name of others. Rating firms' dubious role also helped Mr. Raju in inflating the share price [21].

Ultimately, Mr. Rama Raju, the chief finance officer of Satyam, and others were also charged, even though Mr. Ramalinga Raju took sole and total responsibility. The then Andhra Pradesh Police arrested Mr. Ramalinga Raju and B. Rama Raju for criminal breach of trust, cheating, criminal conspiracy and forgery under the Indian Penal Code [22].

**Naresh:** Professor, are greed and anger connected to each other?

**Professor:** Naresh, why did you ask this question? Do you have something in your mind?

**Naresh:** Yes, Professor. My own experience! I used to be angry, and my case also ended up like Satyam's case.

**Professor:** Naresh! You can proceed with your case. We will see the link at the end of your presentation.

**Naresh:** Professor, thank you. Now I will tell you my case.

I still remember my childhood days when I always demanded things done as I wished and getting them done by my parents. One rainy day, we were passing a shopping mall at around 10 pm while returning home after visiting a paediatrician for treatment for my sickness due to cold and cough. I asked my mother to buy an ice cream for me. She adamantly refused, saying 'you are a fool, you are already suffering from cold and cough'. I ignored my mother and turned to my father's side and looked at him 'eye to eye'. My father's face suddenly became pale and said apologetically: 'My dear son, you are already suffering from cold and cough and we are just coming from paediatrician and it is raining now. So I will buy some biscuits or chocolates for you now.' I shouted: 'No, I want ice cream only!' My father tried his level best to convince me. I became angry and started shouting and crying. My father became restless. His restlessness gave me a message that I am going to win. He yielded to my anger and bought ice cream for me. To my misfortune, I was caught by fever next morning and suffered for five days. My mother kept murmuring until I recovered from fever.

I remember similar minor incidents when I was angry with either my father or mother or both. My parents used to yield to my demands as I was restless and used to frighten them when I was angry.

I forgot to tell you an important incident that happened when I was selecting my intermediate college. At that time, it was unclear to me why I had selected a college that was opposed by my parents adamantly. I can tell you something. Unconsciously or subconsciously, certain forces worked within me. These include the fact that

friends of my choice, including girlfriends, selected that college. In addition, campus life in that college was more fun, having less pressure in learning. Lecturers were liberal and were close to students. In a nutshell, education was not everything there as it embodied a less competitive environment. But my parents were more of professionals and were serious in life. This caused a dichotomy, which might have resulted in a conflict between me and my parents. At that time, I felt that my parents were orthodox while my friends' parents were progressive. I exerted all my energies, including aggressiveness, and forced my parents to yield to me.

I realised what I lost by being angry with my parents and opting for an intermediate college that was not primarily focused on education as most of our college mates secured low scores while our other friends who joined another college, which was opted by their parents, obtained state and national ranks. My parents were silent and never commented on anything. I felt humiliated and felt shy every time I met with my old friends from another intermediate college. Ultimately, they joined undergraduate programmes of their choice, and I was left with no other choice but to join programmes and universities that were 'least preferred'. The complete silence maintained by my parents caused a lot of humiliation to me. I didn't know about my friends who graduated along with me from the same college.

I pulled my socks and changed my behaviour. But it seemed that it was too late as my parents still kept their silence except about giving money.

I started getting angry with myself. I joined the Social Sciences programme for my undergraduate degree in a least preferred university. But I exerted all my energies and put my efforts exclusively on studies. I not only got first rank but also received a University President's Award. My anger with myself continued even after I graduated, even though my parents were happy with my performance. I joined an MBA programme in a reputed university, and again I topped the class. Then I started feeling proud of my achievements.

I got job offers from the best companies with top-bracket salaries. But I opted to be an entrepreneur despite opposition from my parents. I researched about successful entrepreneurs and visited some of their business operations. In fact, I formed a belief that an entrepreneur is superior to all as he/she creates a new organisation and adds value to the economy and society. I used to argue with my friends, saying that we should take risks and become billionaires and in a short span build a business empire and become powerful.

Sometimes I used to think that my father was not as efficient as me as he thinks from a narrow point of view, settling for a job career for a living and being satisfied with what he used to have. I wanted to break this type of thinking. I argued with my father and told straight to his face that he was not efficient. I thought, 'I need to venture now', as my father never started a business when he was young. My father used to get upset, and my mother used to defend my father. This situation still made me angry with my mother too.

I didn't know why I started becoming angry with my parents again, even though they have been nice to me and also submissive to me. I started a major business project involving a huge investment. I borrowed a huge amount of money from

banks. But this money was not sufficient when the project was in the final stage of completion.

I used to argue with my parents regarding my investment despite the fact that they gave me all the money they were saving for their retirement so I can build my business.

I completed my project at last but with great difficulty. Trial production as well as commercial production were successful. My parents' joy was overwhelming, whereas mine was different. I didn't know why my behaviour took a 'U' turn after I started this business venture. I thought it might be due to the work pressure, tension and stress that I had been experiencing.

I built supply chain systems, and everything was going on as I planned. I started feeling proud of myself and feeling sorry for my parents as well as friends, who opted for a job career with a fixed income.

As my project had been completed and my dreams had been realised, my parents convinced me to marry. I agreed and got married. My parents got themselves relieved from the agony and stress caused by my anger as my wife became the absorber.

Later, I started looking at bigger business houses. My rivals got strategic advantage due to the economies of scale over my company. I should say one thing. Despite the success of my business, I couldn't plough back profits due to heavy debt servicing charges.

I was not happy with the size of my business as there were some businesses twice and thrice the size of mine. Some companies have multiple portfolios. I planned and implemented an expansion project and simultaneously a diversification project, despite heavy resistance from my wife. This caused my being angry and restless again as it needed heavy investment. Again, I started roaming around banks and investment companies and going to friends and relatives. This time, the response of all these stakeholders was not encouraging. However, with great struggle I completed the expansion as well as the diversification projects. I had a lot of contentment as I had recognition in the business world.

This happy stage couldn't stay for long as I witnessed heavy pressure in debt servicing, dwindling market opportunities and a growing market competition due to increase in supply over demand. I was so much angry with my marketing people during one staff meeting, but it ended up with the idea of approaching government departments for orders through bribes. I couldn't think that my idea would result in unethical means at that point in time.

The finance staff member got orders, started manipulating accounts and performed illegal as well as unethical acts. Of course our business situation improved a lot, but my angry state of mind crossed the limits. I experienced a mental conflict between my business and my values.

Finally, the Anti-corruption Squad of the government imposed heavy penalties. I lost almost all of what I earned over the period. I couldn't pay the penalty, and ultimately my fortune took a 'U' turn. I was not only angry, but I also lost my common sense.

**Professor:** Naresh! Now we see the link between anger and greed. In your case, anger resulted in failures and failures resulted in earnings, even by unethical means, which can be regarded as greed. In the case of Satyam, it is direct greed. Both anger and greed ruin us. Now I proceed to the Satyam case.

**Naresh:** I am cleared. Please proceed with the Satyam case.

**Professor:** Naresh, good.

It was stated that Mr. Raju confessed on 7 January 2009 over a Rs. 7800 crore financial fraud and resigned from the position of chairman of Satyam Computers Limited. The report of the Serious Fraud Investigation Office (SFIO) indicated that the confession of Mr. Ramalinga Raju was a fake one and was concocted merely to attract a lenient approach towards the investigation of the case. It was further reported that the entire fraud was a conspiracy hatched by Mr. B. Ramalinga Raju, Mr. B. Rama Raju, ex-CFO Mr. Vadlamani Srinivas and ex-Vice President (Finance) Mr. G. Ramakrishna [23]. In addition, the report highlighted that the ERP system was designed in such a way that it enabled them to create fictitious invoices and to create artificial/fake fixed deposit receipts.

A number of factors were responsible, and various parties colluded to accomplish the Satyam scam. Important among them, as reported, were as follows:

- Accounting fraud was committed, including false current account deposits, use of fake bank stationary for fabricating account statements, fabrication of false fixed deposit receipts between 2001 and 2008.
- The chairman-friendly board caused a problem of missing checks and balances, even though all the directors were solid and perfect. The independent directors failed to play their due role in implementing corporate governance.
- The audit committee of Satyam created mistrust in the auditing process as it failed to play its due role.
- Mr. Raju used false tricks and deceived investors, independent directors, auditors and the like. He used investors' money to buy land for himself and his family.
- Credit rating agencies were accused of playing a lenient role in assigning high and quite inaccurate rates to Satyam Computers without properly checking the credentials.
- The Institute of Chartered Accountants of India's (ICAI's) probe criticised the banks for granting short-term loans to Satyam when it was enjoying surplus cash as per its financial statements. The ICAI claimed that the banks didn't play their due role diligently.
- Global audit firm PricewaterhouseCoopers played a highly suspicious and negligent role in auditing Satyam's accounts. In fact, PricewaterhouseCoopers had been the auditors for Satyam since 2000–2001. PricewaterhouseCoopers received fees twice of what TCS, Infosys and Wipro paid to their auditors. PricewaterhouseCoopers received Rs. 4.3 crores in 2007–2008 from Satyam

without checking even invoices. SIFO claimed that PricewaterhouseCoopers, without approval, outsourced the auditing of Satyam to Lovelock and Lewis. It was indicated that PricewaterhouseCoopers played a suspicious and fraud-enabling role in Satyam's scam.

- SIFO found that Satyam also made wrong revelations to the stock exchanges. Satyam submitted to the stock exchanges the names of directors whose terms of office have expired.
- The gap between real profits earned and profits shown in the books of accounts grew enormously and beyond manageable limits.
- There were unknown and unaccounted contribution to political parties.

It was also revealed by investigation authorities that Mr. Ramalinga Raju led a lavish life and accumulated housing property in a number of countries [24].

After a number of court proceedings, Mr. Ramalinga Raju and his brother were sentenced to seven-year imprisonment on 9 April 2015 [25].

**Suresh:** Professor, my jaw dropped. In fact, I observed the situation of my co-participants in the programme. I also felt that I was nothing before hearing about Mr. Raju.

**Professor:** It looks like this. Let me explain his personality.

I strongly feel that he had money mania more than Mr. Suresh. Unlike Mr. Suresh, he was arrested by the police and was imprisoned. It was viewed that he lost the money he earned and his credibility among the investors, business community, academicians, students and society. What would he do with the money he earned through unfair means? Is it just because of greediness or due to other reasons?

It was said that this might also be due to his deepest attachment with his sons and other family members. In other words, he might have wanted to earn a lot for his sons through Maytas and also by buying lands while the real estate business was at peak in Hyderabad, Telangana state, India.

It was also said that greed, along with deep attachment with family members, might have forced Mr. Raju to carry out unethical business practices, for which he was ultimately punished.

It was viewed that Mr. Raju's desire was converted into need to earn money. His career started as an entrepreneur with an ambition of earning money as well as power. His ambition was turned into lust as he wanted to earn back the money he lost in his second project, Sri Satyam Spinning, financed by Andhra Pradesh Industrial Development Corporation. As indicated, Mr. Raju, after the failure of Sri Satyam Spinning, ventured into real estate trade and established a construction company before entering the information technology industry. Therefore, Mr. Raju might have selected a sun-rising industry for making money.

The lust in the process, as indicated by Lord Sri Krishna, might have been influenced by wrath and became passion for money for his family and the power of being rich.

Lord Sri Krishna in Verse 40 of Chapter 3 of Bhagavad Gita stated: ‘The senses, the mind and the intellect are declared to be its seat; covering the knowledge through these, it (desire) deludes the embodied soul.’

As Lord Sri Krishna indicates, lust lives in the senses, the mind and the intelligence. The senses are linked to the brain, and the brain acts as the processing unit of intelligence. The brain also enables us to analyse, create, develop and manage emotions and provides information about hunger, thirst, sleep etc. and controls the sensory process. In fact, the brain receives information and data through the five senses and uses these data with its five aptitudes, viz. attention, memory, learning, recall and speech. The important functions of the brain include control of movement, balance, posture, sensory integration, motor integration and coordination, thinking, novelty and emotions [12].

The human mind is the manifestation of thought, perception, emotion, determination and imagination. The mind has no physical location in the human physiology. It is the manifestation of social, cultural, political and other external environmental factors of human psychology, in addition to the internal factors of human physiology, including hereditary factors. The human mind enables one to analyse differently and in multi-directions based on different situations and observations rather than based on a single approach.

The human brain, which is linked to senses and intelligence, provides hard skills/technical skills, whereas the human mind provides soft skills, like personality, perception, attitude, motivation, interpersonal relations etc., which enable us to analyse in multidimensions. The human brain, together with the mind, enables us to think and analyse in an integrated and comprehensive manner, providing a holistic approach to decision-making and implementation. Human behaviour, human activities and human contributions are thus influenced and/or determined by the human brain and the mind of oneself. In fact, other peoples’ brain and mind also influence us through interaction.

Human behaviour is determined by the integrative interaction of the brain and the mind of oneself and others. Unfortunately, lust lives in the mind. We may be influenced by lust when we fail to use our intelligence properly, not only for ourselves but also for others and the society at large.

It was said that Mr. Ramalinga Raju was not illiterate as he was highly educated and graduated from a reputed educational institution – [Ohio University](#) in the USA. But even though Mr. Ramalinga Raju was intelligent, lust might have nullified his intelligence by diverting his thought process from the inclusive good of the society at large to the exclusive well-being of his family. Lust might have influenced his senses, intuition and mind. His senses might have fed his brain with stories about people who became billionaires in a short span of time.

Lust might have made his mind focus on becoming a billionaire overnight by manipulating the economy, politics and society. Lust might have also made him take role models of such people who became rich or powerful overnight. Becoming rich or powerful overnight, in the current scenario, may be possible by exploiting other stakeholders.

Lord Sri Krishna states in Verse 41 of Chapter 3 of *Srimad Bhagavadgita*: ‘Therefore, Arjuna, you must first control your senses, and then kill evil things which obstructs Jnana (Knowledge of the Absolute or Nirguna Brahma) and Vijnana (Knowledge of Sakara Brahma or manifest Divinity).’

As Lord Sri Krishna indicates, lust destroys knowledge and self-realisation. As such, Mr. Raju might have failed to realise the common knowledge that creation of wealth is for the benefit of all stakeholders, not just for himself and his family. In addition, wealth needs to be created by fair means and not through unfair means. In fact, he might have been taught in his MBA programme at Ohio University, USA, that business should operate on legal as well as ethical principles. No school or university would teach the things he practiced at Satyam to deceive all stakeholders, including the shareholders and the government. He might have known that bribing the World Bank staff is a serious offence. He might have acquired the knowledge of business laws at his undergraduate level and corporate governance at his MBA level. But lust might have destroyed all his knowledge of business management principles, business ethics, business laws and corporate governance.

Realising one’s own self is the greatest achievement. Many of us may not concentrate on this important aspect in our material life. We earn a lot, but we will depart from this material world for external abode, leaving behind all that we earned to someone else, not necessarily to our kith and kin. But lust may make us forget this truth and struggle for material accumulation.

Therefore, Lord Sri Krishna advised us to regulate our senses in order to curb lust. Mr. Raju, like most people, might have failed to regulate his senses. And in the case of Mr. Raju, the level of de-regulation of senses might have happened beyond tolerable limits. Consequently, the free operation of the senses might have caused Mr. Raju to maximise lust beyond tolerable limits. The result of not following what the Lord indicates might have caused the destruction of himself, his family, the stakeholders and the credibility of the country globally.

The Lord in Verse 17 of Chapter 14 of *Srimad Bhagavadgita* indicates that ‘Wisdom follows from sattva, and greed, undoubtedly, from Rajas; likewise, obstinate error, stupor and also ignorance ensue from Tamas’.

As indicated by the Lord, the lust of Mr. Raju might have taken the shape of passion. Mr. Raju probably failed to see that his passion for money was exclusively for his family after 2000, when Satyam Computers Limited was abnormally successful. He perhaps forgot to see the societal impact of his passion. In addition, the success of Satyam Computers perhaps brought pride in him, thinking that ‘he’ might be the only one responsible not only for the success of the company but also for bringing information technology revolution at least to the former state of Andhra Pradesh. At

this juncture, the political scenario in the former state of Andhra Pradesh might have also enhanced his pride, adding power to the money he was already earning.

Mr. Chandra Babu Naidu, the Chief Minister of undivided Andhra Pradesh, India, in 1995, perhaps identified information technology (IT) as a strategic sector for the development of the state. He probably recognised Mr. Raju as a potential partner in developing IT in the state. Mr. Naidu probably provided unfettered personal access to the Office of the Chief Minister to Mr. Raju. Mr. Raju had the privilege of meeting and sharing dais with Mr. Bill Clinton in Hyderabad in 2000, along with the Chief Minister of the state [26]. In fact, Dr. YS Rajasekhara Reddy accused the previous government, while Dr. Reddy was accused of favouring Maytas [27].

While enjoying political, economic and social power and money, Mr. Raju's desire for an enhanced and enlarged power might have crippled his mind and intervened in his brain to transform passion into 'greed'.

Perhaps the greed of Mr. Raju made him initiate, fabricate and operate accounting fraud, providing misleading information to stock exchanges, rating agencies, award presentation agencies and government departments. In addition, he was probably involved in insider trading and downloaded shares held by himself and his family and reduced his share of equity. Thus, he might have planned to escape the loss and passed it to all other investors. He perhaps committed all frauds due only to his greed. His greed and his attachment to his sons might have made him ignorant of what he was doing, like *Dhritarashtra* in Mahabharata. In other words, Mr. Raju might have planned on buying Maytas owned by his sons. Perhaps he wanted to favour his two sons by virtually looting from all investors, except his family, and cheating rating agencies and banks, like how *Dhritarashtra* cheated on Pandavas in *Mahabharata* to make *Duryodhana* king. Mr. Raju might have acted like *Dhritarashtra* out of ignorance and developed greed. Mr. Raju probably ultimately lost most of his earnings, as well as his credibility, due to his greediness. His greediness might have made him mad after acquiring Maytas. Ultimately, the whole episode looked like an illusion to the entire family of Mr. Raju.

Perhaps Mr. Raju had an ulterior motive of creating an inner self within the self mainly due to his greed. Perhaps he himself floated Satyam Computers with the ulterior motive of making money for his family than making money for the company, though he was its chief executive officer (CEO). Here, self might have floated Satyam Computers and the inner self might have acquired exclusive benefits for his family by unethical means rather than getting inclusive benefit for his family and all other shareholders. Hence, he probably plotted the idea of earning huge money by inflating share prices, selling family's shareholding at the inflated price and diverting that money for his exclusive family benefit. Later he probably conspired in the acquisition of Maytas by Satyam, which led to the decay of his business career (see Exhibit 2.2 for the flow of activities).

## Exhibit-2.2. = Greed→ Rise and Fall of Mr. Ramalinga Raju: Flow of Activities

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Desire → Establishment of Satyam → Expansion and Growth (Subsidiaries and Offices in various Countries + Acquisitions) and Getting the advantage of Information Technology boom → **Passion** → Huge Profits + Political Recognition, Recognition in the Business Community and Social Recognition → Domination of Senses + Mr. Raju's inability to use his brain and mind for the good of all + family's influence for self → **Greed** → Creation of a Brand image → Awakening of the Inner self of Mr. Raju → Window-dressing of Operations and Manipulation of the whole Business Environment → Fabrication of bank Stationary → Fabrication of Financial Accounts → Inflation of the market price of the shares → Downloading of family's shares → Diversion of money to personal accounts → Purchasing of Land for Personal Benefit → Issue of acquisition of Maytas → Scam → Investigations → the End of Satyam Computers Limited → Imprisonment → Attachment of properties by the Enforcement Directorate of the Government → the fall of Raju's Business and Social and political Credibility → **the end of Mr. Raju's Current Business Career**

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We may draw inferences that Mr. Ramalinga Raju failed to control his senses and mind when the business and profitability of the company were on the rise. Perhaps his attachment to the family and the family's well-being over the well-being of investors and the credibility of the country dominated his mind due to his inherent character of greediness rather than contentment and being ethical. He probably surrendered to senses and became a slave to his mind. Then greed prevailed over the well-being of the investors of Satyam, as well as the country at large. This greed ultimately led to the disgraceful fall of Mr. Ramalinga Raju, in particular, and his family, the investors, the country's credibility etc., in general.

Thus, as the Lord indicates, greed derives from lust, foolishness, and madness and illusion derives from ignorance, which might be true in the case of Mr. Ramalinga Raju.

We need not reinvent the wheel in following and practising what the Lord indicates as Satyam's case may be a living example for all of us. The Lord in Verse 43 of Chapter 3 of Bhagavad Gita indicates: 'Thus Arjuna, knowing the self which is higher than the intellect and subduing the mind by reason, kill this enemy in the form of desire that is hard to overcome.'

While discussing about greed, one should think of life beyond this materialistic world as the end of this life is certain to happen for everyone 1 day or the other. It is also certain that everything would be detached after this materialistic life. It may be quite uncertain as to what extent the materialistic wealth we will leave will be enjoyed by the generations next to us. I explained this already using the example of the descendants of the last Mughal emperor.

When we speak about life beyond this materialistic world, we should remember what the Lord indicates in Verse 22 of Chapter 5 of Srimad Bhagavadgita, which reads as follows: 'The pleasures which are born of sense-contacts, are verily a source of suffering only (though appearing as enjoyable to worldly-minded people). They have a beginning and end (they come and go); Arjuna, it is for this reason that a wise man does not indulge in them.'

The Lord clearly indicates that material pleasure has a clear beginning and end. It does mean that material pleasure is not permanent. The material pleasures of all of us will end at a certain point in time. Mr. Raju's material pleasures perhaps ended when the board of Satyam rejected his proposal. In addition, he might have undergone severe psychological agony, unrest and stress while manipulating the accounts, managing the awards and scoring points with an end of buying Maytas in mind. What did Mr. Raju earn after undergoing all this turmoil?

Most of us know all these, as what I mentioned earlier, but we fail to follow what the Lord says. Lord Krishna in Verse 21 of Chapter 16 of Srimad Bhagavadgita says: 'Desire, anger, greed – these triple gates of hell, bring about the downfall of the soul. Therefore, one should shun all these three.' So we will have to give up lust, anger and greed.

Mr. Naresh, I hope it is clear to you as anger is danger and we have to give up lust, greed as well as anger.

**Mr. Naresh:** Professor, thank you for your clear analysis.

**Professor:** Good, let me conclude.

**Conclusion:** We need to give up lust, greed and anger, even when we think about the current life rather than thinking about the situation after life, as lust, greed and anger won't produce the results that are desirable from an overall and sustainable/long-run perspective of self, family and society. In fact, the case of Mr. Ramalinga Raju may provide us with a living testimony.

Our attachment to the material world is the root cause of lust and greed. As the Lord indicates in Verse 25 of Chapter 17 of Bhagavad Gita: 'With the idea that all this belongs to GOD, who is denoted by the appellation "TAT", acts of sacrifice and austerity as well as acts of charity of various kinds, are performed by the seekers of liberation, expecting no return for them.' [28]

Therefore, engagement in sacrifice, penance and charity may reduce our desire for material gains, which in turn may reduce our attachment to lust and greed. In fact, most of the companies perform sacrifices in the form of corporate social responsibility. But one should understand that earning money unethically because of greed and engaging in sacrifice through corporate social responsibility, as Satyam Computers did may not be desirable and acceptable. In fact, the Lord indicates that one should engage in sacrifice without desiring for fruitive results as desiring/attachment to results may provoke us to engage in unethical acts, as what happened in this case.

**Suresh:** Professor, thank you very much for your nice presentation and clarification about sacrifice through social responsibility and ethics.

**Professor:** Thank you. Participants and friends, we shall meet tomorrow.

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## Chapter 3

# Trustees or Tricksters



**Professor:** Dear participants, I welcome you all to the third session. We have so far discussed the Satyam Computers case in relation to greed. Now we shall discuss trusteeship in this current session. I will explain what trusteeship is.

Trusteeship is the governing of somebody's property by a manager/officer/someone for the benefit of the owner rather than utilising it for the benefit of the one who manages it. Executives of a company are responsible for managing the shareholders' assets for the advantages of the owner rather than using the property for their own benefit.

**Mr. Rohan:** Professor, my company's case is apt here. Can I share it?

**Professor:** Rohan, you proceed.

**Rohan:** I am from a middle-income group family. I was not on top bracket in academics. I completed my Bachelor and Master degrees in Commerce and tried for several jobs but couldn't succeed. But I was successful in getting a loan from a commercial bank after completing an 'Entrepreneurship Development Programme' conducted by a governmental organisation. Along with the bank loan, my father and my father-in-law gave some money as our shares in property. My wife and I started an automobile workshop in 1986 as a private limited company with a share capital of 70% of the total investment, and the remaining 30% investment was from a bank as loan.

My wife and I worked with dedication and commitment. We opened branches in major cities in Andhra Pradesh, diversified into service stations, made the company ten times bigger by 2006 and converted it into a public limited company. Then we went for public issuance in order to open branches throughout North India and also

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Note: The meanings of verses of Bhagavad Gita are taken from *Srimad Bhagavadgita*, published by Gita Press Gorakhpur India, 2019, with permission from the publisher.

diversified to related areas. Our public issue was oversubscribed, and our share in the total capital became 20% after the public issue in 2008.

After conversion into a public limited company, the company had a new board of directors, consisting of nine directors, including my wife, myself and two external directors. I had been elected as the managing director. We started employing professional managers, designed a formal organisation structure and created systems and procedures. With all these, I started recollecting what I studied in my bachelor and master degrees. In addition, I attended a number of Executive Development Programmes, including one on 'Board of Directors'. I was told that I should observe compliance, follow corporate governance and the like as I am an agent of lakhs of shareholders. I realised that I should be like a trustee as I had to safeguard the investments and interests of lakhs of shareholders. Previously I was safeguarding the interests of our family only.

Within 4 years after converting the company into a public limited one, the scale of business operations increased by tenfold and the turnover to thousands of crores of rupees. I had been very careful about my behaviour, decisions and actions. In fact, I attended a Management Development Programme on the 'Role, Responsibilities and Accountability of Senior Management'. One of the professors in the Management Development Programme indicated that the image and reputation of the company should be protected, in addition to discharging obligations as indicated by law and regulatory bodies and following ethical aspects in all business transactions. He further suggested to increase the number of independent directors and also institutional ownership.

One day, our chief finance manager briefed me about the modes of fast money making with a view to increasing the company's net worth and its value to the owners. I listened to him very carefully. He emphasised on earning profits as the top-most priority, as well as increasing the market value of shares. I discussed with him in detail the risks involved in maximising profits and the importance of following legal and ethical codes of conduct in all transactions. But the chief finance manager tried to convince me again and again using calculations, cases, examples and practices. He further emphasised on new ventures, diversification strategies as well as expansion strategies. I thought he was playing his role excessively. So I thought he needed an integrated/strategic approach to the whole business and should attend a programme like one for strategic management.

I found a dichotomy between what I was told in the Management Development Programme and what our chief finance manager was briefing me about. I shared this dichotomy with my wife, as well as my thinking about referring the chief finance manager to a Management Development Programme. My wife supported my idea.

I found an opportunity to depute the chief finance manager to a Management Development Programme on 'Corporate Governance'. He returned with a cheerful note after completing the programme. I was happy as there was a significant change in his conceptualisation as the chief finance manager. He started speaking compliance, diligence and following laws and regulations.

To my surprise, the profitability of the company suddenly increased remarkably without a corresponding increase in operation as well as sales during the current

year. I checked with the Operations Department and Marketing Department, and their responses corroborated with my gut feeling.

Then I finally checked with the deputy finance manager in confidence without touching on the chief finance manager. The deputy finance manager innocently and emotionally informed me that they introduced a new accounting model that provided opportunities for the enhancement of profits. Once the profits were enhanced, the department planned to do the following: to increase the rate of dividend, to issue performance-based bonuses to all executives in the form of equity, to treat all regional offices as profit centres and strategic business units and prepare separate accounts for them, and to use employees' personal accounts for the purpose of tax reduction so that their disposable income levels can be improved.

I told the deputy finance manager to keep our discussion highly confidential. I realised that the personality of the chief finance manager was such that he came back to the square.

My paramount priority should be loyalty to the company and to build and protect the company's image and all its stakeholders, particularly the lakhs of shareholders who invested their hard-earned money trusting my character.

I discussed the issue with the internal auditor in confidence and sought his advice. I strongly felt that I would fail as the trustee of lakhs of shareholders and also as the custodian of the company if I fail to think and act ethically.

The internal auditor, after a thorough analysis as well as after consultation with the external auditor in confidence, informed me that certainly it would be an unethical case and it will damage the company's image as well as its future growth. He recommended to stop this practice. The two of us discussed this issue at length, and we agreed on one preventive measure, that is investigation by the internal auditor. I gave him the green signal, as well as freedom and my full support. Meanwhile, I took measures to appoint two additional independent directors by following all required procedures.

The Internal Audit Office conducted a detailed enquiry into the pretext of the internal audit process and submitted a detailed report on the new accounting practice without my prior approval as well as the approval of the board.

Immediately, I conducted a board meeting and discussed the whole issue. The board resolved to suspend the services of the chief finance manager by following the policy and regulations in force but allowed him to defend his action. The board further resolved to restore the old accounting practices with immediate effect.

The services of the chief finance manager were suspended with immediate effect, and the old accounting practices were restored. The chief finance manager eventually lost his job. The profitability position now reflects on the company's true operating position.

All the executives were happy as the company was saved from a possible scandal. I was also happy and felt peaceful as the possible damage to the company was prevented in the right time, and the interests of lakhs of shareholders were protected.

One of the executives said that our managing director saved our company from becoming another Enron. I didn't know what Enron was. But I started searching for

Enron and learned what happened to it and how it could be comparable with our company's issue.

Rohan professor, I have a basic idea about Enron.

**Professor:** Rohan, that's good. I was also thinking about dealing with the Enron case, which is apt at this juncture. Now I explain the Enron case.

## The Enron Scandal

This is viewed as a classic case of executive failure of trustees due to lack of ethics. It was claimed that deficiencies in character, lack of ethics, tacit approval to unhealthy practices, scant respect to safeguard the interests of all stakeholders and the selfish interests of the chairman and the CEO had all finally wiped out the company, resulting in huge and unimaginable losses to the shareholders, employees and other stakeholders and damage to the prestige and reputation of the corporate world and the nation. Now let us know the details.

Mr. Kenneth Lay established Enron in 1985 with the motto 'Respect, Integrity, Communication and Excellence'. Its declared 'Vision and Values' was: 'We treat others as we would like to be treated ourselves ... We do not tolerate abusive or disrespectful treatment. Ruthlessness, callousness and arrogance don't belong here' [1]. The formation of Enron helped to capitalise the prospects of deregulation of the natural gas industry in the USA [2].

Mr. Jeff Skilling was appointed as the chief operating officer of Enron at the initiation of Mr. Lay. Mr. Skilling, a financial consultant at McKinsey, could persuade Enron to be the gas bank in order to encourage sellers and buyers to use Enron as a market intermediary. Enron shifted from an energy supplier position to an energy trader position, owing to Mr. Skilling's approach. He built a major gas operation in the 1990s, initially in the USA and then in the UK, China and South America. Mr. Skilling might have the goal of developing Enron as a light operating but heavy trading giant. In addition, Mr. Skilling might be of the view that Enron would be engaged in trading electricity.

Enron procured gas contracts for \$122 million (before interest and taxes) and became the major vendor of natural gas by 1992 in North America. Enron managed the contract trading business efficiently by developing an online trading website in November 1999. Prices of Enron's shares increased by 311% from 1990 to 1998 [3]. Its share was priced at \$83.13 (by 31 December 2000), which was six times its book value. Added to this, Enron was rated as the most innovative large company in the USA by the 'Most Admired Companies Survey' [4]. It indicated a bright future for the company and the shareholders. Further, Fortune in 2000 rated Enron as the 7th in the list of Fortune 500 companies.

To achieve further growth, Enron diversified its business into different portfolios, including trading contracts for similar products across the globe, including Indonesia, India and the Philippines. These diversifications helped Enron to rise its income.

The growth of Enron was reversed as deregulation in California didn't bear fruits as expected. In addition, its international business expansion projects were not manned aptly, and as such most of the contracts couldn't be executed. To offset these negative trends, Enron decided to be the world front runner in the water industry by buying a major water company in the UK and entered into a major transaction in Argentina. Enron's expansion was ahead of its cash inflow and its ability to finance these expansions. It was criticised how Enron's chief finance officer started spinning money for himself rather than for the company. At that time, the [dot.com](#) boom bubbled, and Enron started experiencing negative business results. Mr. Skilling might have used his skills of manipulating accounts and artificially enhanced its financial position. Markets started suspecting the financial position of Enron by mid-2001. Enron's share price rapidly fell below \$1 by the close of November 2001 [5].

These factors might have started producing red signals, and the top executives immediately disposed of their stocks based on insider information. Subordinate rank staff were prohibited from disposing their shares, owing to 401(k) restrictions (limits of pension fund of 401(k) plan), and they lost all their savings.

On 26 March 2001, Ms. Sherron Watkins, the vice president of Enron, initially put her company's funds and accounting practices into question, and she sent a memo to Mr. Lay about the company's finances. Vinson & Elkins – the company's law firm – was asked to review Enron's accounting practices. Vinson & Elkins announced on 15 October 2001 that Enron had done nothing wrong as Andersen approved each issue [6].

**The Aftermath of Red Signals-Restructuring losses and SEC Investigation:** Enron's financial position worsened day by day. Mr. Skilling sold 450,000 shares at a price of about \$33,000,000 before resigning from Enron. Mr. Skilling soon acknowledged that a phenomenal cause for his leaving was the company's irresolute price in the stock market [7]. Mr. Skilling left the company suddenly on 14 August 2001.

Enron planned to dispose of less profitable assets like Portland General Electric and Northwest Natural Gas. Due to heavy criticism, Enron undertook reaffirmation of financial reports for the years 1997 to 2000 by correcting accounting defilements by dipping revenue by \$613,000,000 and increasing charges by \$628,000,000 and condensed equity by \$1.2 billion [8]. Enron indicated that most of the losses were investment losses.

The Securities and Exchange Commission (SEC) on 22 October 2001 declared that it will investigate many doubtful transactions and transactions entered into by Enron involving company's employees. This piece of information resulted in the decline in its stock price from \$20.65 to \$5.40 in 1 day [9]. In addition to the SEC's formal investigation, Enron also appointed a special committee led by William C. Powers, the dean of the Law School of University of Texas, to conduct investigation [10].

## ***Downgrade of Credit Rating***

A piece of news regarding shortage of funds of Enron became widespread on 29 October 2001, and it further blew up to news that the company needed loans amounting to \$1 billion to 2 billion from financial institutions [11].

Consequently, the credit ratings of the company dwindled from Baa1 to Baa2, as indicated by Moody's. This decline was just two levels above junk status. The rates given by Moody's was avowed by Standard & Poor. It was feared that Enron's commercial paper rating would also be downgraded by Moody's. This would result in making the company's efforts to mobilise further funds more difficult [12].

Meanwhile, Enron obtained a fully secured loan of \$1 billion from its rival, viz. Dynegy [13].

## ***Failed Buyout by Dynegy***

On 7 November 2001, Dynegy voted to acquire Enron for \$8 billion in stocks [14], and later Dynegy offered to purchase Enron for \$4 billion, instead of the earlier offer of \$8 billion. However, on 28 November 2001, Dynegy ultimately refused to acquire Enron. Enron's credit rating was condensed to scrap status. 'Enron is now shorthand for the perfect financial storm' [15].

## ***Bankruptcy***

Enron declared a loss of \$618 million for the period of July to August on 16 October 2001. Enron filed for bankruptcy on 2 December 2001, resulting in loss of employment of most of the staff and low value of shares, and a scandal was made known to the rest of the world. Enron's bankruptcy had been the biggest in US history. Enron's shareholders lost \$74 billion. Similarly, employees and creditors lost huge amounts, close to \$67 billion. Enron sold all its property, including art pieces, photographs and its logo signs.

## ***Charges and Punishment***

Charges were levied against Andrew Fastow, chief financial officer of Enron, on grounds of deceit, money laundering, insider trading and treachery. He was sentenced to 10 years of imprisonment [16], and Mr. Lay was sentenced to 1 year [17]. Charges involving financial corruption, including bank deception, preparing untruthful reports to financial institutions and auditors, securities deception, wire

deception, money laundering, treachery and insider dealing were levied against Mr. Lay and Mr. Skilling. Mr. Skilling was sentenced to 24 years and 4 months in prison [18]. However, the United States Department of Justice and Mr. Skilling reached a covenant that resulted to reduce the punishment to 14 years and 4 months [19]. Chief Accounting Officer Rick Causey was sentenced to 7 years in prison [20]. Mr. Lay, on the other hand, passed away on 5 July 2006 before serving his punishment of imprisonment of 45 years [21].

Arthur Andersen – auditing firm of Enron – was charged on several grounds, including hiding documents and deleting emails. Arthur Andersen surrendered its CPA licence on 31 August 2002, leaving its 85,000 staff members jobless [22]. Ultimately, Andersen couldn't turn around its business operations.

**Mr. Gopal:** Professor, how did it happen?

**Professor:** Mr. Gopal, I will explain how skillful Mr. Skilling was in destroying a business through new accounting models. Now we will discuss the strange financial practices adapted by Enron to enhance its financial position artificially.

**Mark-to-Market Accounting:** Enron's accounting model was a standard accounting practice before Mr. Skilling joined Enron. Mr. Jeffery Skilling joined Enron with a condition of introducing a mark-to-market accounting model [23]. Mr. Kenneth Lay accepted this condition and employed Mr. Skilling. Mark-to-marketing accounting allows the recording of potential profits rather than actual profits. Mr. Skilling used to record the estimated profits of a project when the contract was signed rather than the actual profits earned by the project in each year. This practice made Enron to show artificial profits in accounts, which were quite higher than the real ones. This practice also made Enron a profitable company when it wasn't actually.

**Darwinian Worldview:** It was asserted that Mr. Skilling introduced a 'Darwinian' worldview, which made it possible for the company to fire 15% of its employees who were at the low strata of performance every year. It was alleged that Mr. Skilling used to employ people who follow his instructions (known as 'guys with spikes') in place of fired employees. This process is called 'rank and yank'. It was reported that Mr. Skilling employed a number of people as his lieutenants, who indulged in unethical practices like using the company's money for visiting strip clubs and buying large farmlands.

Mr. Fastow, the chief finance officer, was viewed as another culprit in the completion of the Enron scandal. It was alleged that he was responsible for remitting Enron's money to the tune of more than \$10 million to the network of shell companies and covering increasing debt. It was also alleged that Mr. Andrew did this fraud with the knowledge of the company's auditors.

Journalist Bethany McLean was the first person to observe the weird dealings, uneven cash flow and vast debt of Enron while conducting her research. She called Skilling for clarification before publishing her research report. But Mr. Skilling

labelled her research as unethical. Fastow stated that Enron couldn't reveal its earning details and maintained confidentiality of what its financial position was. According to Fastow, Enron didn't reveal the sources of its revenue [24].

Meanwhile, Mr. Skilling attacked Mr. Richard Grubman – a Wall Street analyst – when the latter, on 17 April 2001, asked for clarification about the unusual accounting practices of Enron. Mr. Skilling resigned from Enron on 14 August 2001 for personal reasons.

**Specific Purpose Entities** Another significant aspect of Enron's operations was that it created special purpose entities to fund and secure risky projects and/or assets and had very limited disclosure of the use of them. By 2001, Enron had been using many of such firms. This might have enabled Enron to avoid disclosures regarding debts, profits or losses. The company also used partnerships for the purpose of limited disclosure. These special purpose entities enabled Enron to devalue liabilities and overstate assets in its balance sheet.

It was discovered in 2001 that Enron's earnings, to the tune of \$405 million, were overstated and debts, to the tune of \$628 million, was understated from 1997 to mid-2001 as a consequence of this arrangement [25]. It was criticised that Fastow in 1999 planned for artificially increase share value of Enron through restricted partnerships [26]. Whitewing was regarded as another such special purpose entity.

**Trading Accounting Model** Enron used a hybrid trading accounting model with an ulterior motive of presenting profits higher than real profits. This model was later used by others in order to compete with Enron in presenting income [27].

Despite all these serious accounting and finance malpractices, Enron's board was considered as one of the five best boards in 2000 [28]. In addition, it could attract large investments to finance questionable projects as it could conceal the controversial accounting and financing models it used [29].

It was also alleged that Enron's management deceived the shareholders by informing them that special purpose entities were used to hedge downside threats, but they used their own shares and financial assurances to finance these hedges. Hence, Enron failed to protect itself from the downside risk.

### ***Performance-Based Compensation***

Enron's human resource management practices include the implementation of performance-based incentives, i.e. stock options. It was viewed that these incentives attracted talent that was capable of introducing and implementing tricks and tactics to produce short-term results instead of building strong long-term company fundamentals. Executives targeted to increase stock price by fabricating accounting data as necessary to enhance stock price. Salaries of managers were based on the increase in share value in the form of stock options. Consequently, issuance of shares was on

galloping speed, resulting in outstanding stock option of 96 million of shares by the end of 2000. The benefit of stock option to Lay was \$659 million and to Skilling was \$174 million by January 2001. While in 1998 the top 200 employees received \$193 million in the form of salaries, bonuses and stocks, in 2000 these jumped to \$1.4 billion [30].

**Mr. Mukund:** Professor, what were the auditors doing?

**Professor:** Mr. Mukund, now I explain about the role played by auditors, who were supposed to be the guardians.

### *Unsafe Guardians/Auditors*

Financial auditors/audit firms are expected to be financial guardians of the shareholders and other stakeholders of a company. Arthur Andersen – the auditing firm of Enron – was accused of playing a conflicting role in auditing and consulting. It earned \$25,000,000 as auditing fee and \$27,000,000 as consulting fee from Enron in 2000. The methods of audit of Andersen were indicated ‘as either being completed solely to receive its annual fees or for its lack of expertise in properly reviewing Enron’s revenue recognition, special entities, derivatives, and other accounting practices’ [31]. It was criticised that Arthur Andersen’s employees were involved in deleting documents and emails relating to Enron. As such the audit firm was charged with and found mortified of impediment of fairness for these acts [32].

The Powers Committee employed by Enron’s board to scrutinise the firm’s accounting in October 2001 pointed out: ‘the evidence available to us suggests that Andersen did not fulfill its professional responsibilities in connection with its audits of Enron’s financial statements, or its obligation to bring to the attention of Enron’s Board (or the Audit and Compliance Committee) concerns about Enron’s internal contracts over the related-party transactions’ [33]. It was blamed on the ground that Enron’s Audit Committee failed to possess members with accounting expertise to question the auditors; the committee used to meet for only a short duration, not enough to check the amount of materials supplied to them; and pressures disabled the management to interrogate them. In essence, they couldn’t do their job based on what was expected of them.

The certified public accountants appointed by Enron researched on the weaknesses of the accounting rules of the Financial Accounting Standards Board (FASB) and the different methods that can be employed to rescue the company’s finances, including capitalising on dodges, found in the Generally Accepted Accounting Principles (GAAP). They helped Enron’s management in mismanaging accounting rules by exploiting the weaknesses of the existing system and the rules of the Financial Accounting Standards Board [34].

The board members of Enron might have allowed conflicts of interest in the accounting and auditing process. The report of the United States Senate Permanent Subcommittee on Investigations of the Committee on Governmental Affairs pointed out the same [35].

This shows that the employees of Arthur Andersen – the auditors of Enron – might have failed to play their role as guardians of the finances of the company by compromising its professional standards and professional code of ethics.

**Mr. Balu:** Professor, thank you for explaining the failure of auditors in this case.

**Ishani:** Professor, I am so upset.

**Professor:** Why?

**Ishani:** I have three concerns. First one is: Why did the management fail to protect the concern of the shareholders and other stakeholders? Second one is: Why did the auditors fail? And the third one is: Why did the rating firms also fail in doing their jobs?

**Professor:** Ishani, good questions. I deal with all now. All your questions rooted from one basic question.

**What Is the Basic Question?** The above-mentioned practices in Enron raised a basic question: Who is the guardian of the investments of the shareholders and the interests of other stakeholders? The board of directors, senior executives and auditors are expected to be the guardians of not only the shareholders but also the other stakeholders. The rating firms do also play a role indirectly in influencing the investors and other stakeholders in dealing with the company. This is because one of the core obligations of the board, senior executives, auditors and credit rating firms is to act as a **fiduciary**.

A fiduciary is a person, group or organisation that takes care of another person's, group's or organisation's well-being and assets for the gain and benefit of the latter. A fiduciary works for the benefit and gain of another rather than himself/herself. This is called 'prudent person standard of care'/'prudent-person rule'. Thus, a 'fiduciary is required to act first and foremost with the long-run and sustainable profits and wellbeing of beneficiaries in mind' [36].

The fiduciary responsibility of the members of the board expects them to be selfless, honest and trustworthy. As such, board members must always think and act for the good and benefit of the shareholders rather than themselves. They are expected to take reasonable care while making decisions and should not take risks beyond tolerable limits. Board members should have a basic knowledge of financial management, if not expert knowledge, in order to discharge their fiduciary responsibilities.

Board members should also act as a fiduciary in relation to the shareholders. The duties of the board of directors as a fiduciary include:

- Careful and responsible decision-making, keeping the long-term and sustainable interest of the company as a whole, including the shareholders and all other stakeholders
- Careful and responsible decision-making, keeping a balanced and comprehensive approach to sustaining the interest of all stakeholders in the long term, which includes having climate change in mind
- Acting in good faith
- Acting selflessly
- Strict adherence to corporate governance requirements
- Conducting all corporate operations diligently
- Following ethical codes strictly; and
- Strictly following corporate vision and mission

Essentially, good faith and trust are involved intimately in their fiduciary responsibilities. It does mean that the board of directors should act as trustees of the shareholders.

Now we may get a nagging question as to who a trustee is. A trustee is a person or a body of persons employed to manage the affairs of a company [37]. Another meaning of trustee is: 'A trustee is a person or firm that holds and administers property or assets for the benefit of a third party' [38].

The duties of trustees include:

- Acting for the benefit of the company
- Prudently investing and managing assets
- Being impartial to the stakeholders
- Being loyal to the beneficiaries
- Having no intention of earning profit for themselves
- Avoiding all conflict of interest situations for personal gains, and
- Performing all activities in good faith

The board of directors and the senior management should act like trustees of the shareholders as the latter are the owners of the company and the former are the guardians of the latter. Therefore, as trustees, the board of directors and the senior executives should manage the company, having in mind the long-term and sustainable benefit that can be obtained by the shareholders. As trustees, they have to give up their personal goals and undertakings to do what's advantageous for the interest of the shareholders and other stakeholders in the long run and for the sustainable development of the company.

**Rohan:** Professor, now I recollect why one of the executives of my company said: 'Our managing director saved our company from becoming another Enron'. There are many similarities between the incidents in our company and the Enron scandal. Let me discuss them.

Did the board, senior executives, auditors and credit rating agencies of Enron act as trustees of the shareholders and other stakeholders? If yes, they would have exerted their efforts in maximisation shareholders' wealth and the well-being of the company.

**Professor:** Rohan, you are right. I will discuss all the parties responsible for this and analyse their characters.

**The Board:** It was stated that all the deals of Enron were carried out with the approval of the corporate board. The board was alleged to be blind as it failed to investigate and obtain full details before approval. It was felt that the board blindly believed Kenneth Lay and Jeffery Skilling and failed to safeguard its primary function of safeguarding the shareholders as well as other stakeholders, including lower level employees.

**Mr. Kenneth Lay:** Mr. Kenneth Lay formed Enron in 1985. A liberalised environment and Enron's ability to lobby against the government helped the company to make more money until the end of the 1990s. It was strongly felt that Mr. Lay – CEO of Enron – mostly adapted a laissez-faire policy in managing his subordinates. It was criticised how he openly emphasised on 'making more money' and appointed Mr. Skilling on the condition of following 'mark-to-market accounting'. These two issues led to all kinds of window dressing in accounts; private earnings by Enron executives; loss to lower level employees, shareholders and creditors; and ultimately the bankruptcy of the company.

It was viewed that Mr. Kenneth Lay encouraged executives, particularly Mr. Skilling, to make more money. Traders also gambled with Enron's reserves. However, Mr. Mike Muckleroy, chairman and CEO of Enron's liquid fuel group, narrowly protected the company from bankruptcy by conning the market initially. But Mr. Kenneth Lay denied having knowledge of these malpractices.

My basic question is: How did Mr. Kenneth Lay crafted his policy of 'making more money'? Was he not responsible for the sustainability of the company and the shareholders? Why did he permit Mr. Skilling to use the 'mark-to-market accounting' policy? Profit was calculated on potentiality rather than reality under mark-to-market accounting. Profit, to the best of our knowledge, is calculated based on actual figures rather than potentiality.

It was strongly felt that the absence of monitoring by Mr. Kenneth Lay over the company's strategy implementation and operations allowed senior executives to mint huge amounts of money for their personal gains, resulting in a scandal. This scandal made the junior rank staff to forego their employment and lifetime savings as they were unable to dispose their shares due to the 401(k) restrictions.

Did Mr. Lay think that he was a trustee rather than the sole owner of the company? Had he been mindful of his role as a fiduciary and a trustee of the funds of millions of shareholders, the scandal wouldn't have been cooked.

**Rohan:** Professor, I never thought that I was the sole owner of the company and make impulsive decisions. The capital in a joint stock company is provided by a number of shareholders, and hence no single person is a sole proprietor. In fact, some people are careless in managing others' money but are quite careful in managing their own. They steal others' money, particularly that of lower level employees and shareholders and accumulate them for themselves despite the fact that they won't be able to use it in their lifetime. They do impression management in case of others' transactions.

**Professor:** Rohan, you are right. Let me continue.

Mr. Kenneth Lay, Mr. Jeffrey Skilling, Mr. Andrew Fastow, Mr. Lou Pai and other executives were probably responsible for cheating non-executive employees, shareholders and creditors. The team, led by Mr. Lay, perhaps created an artificial market and pushed up share prices and sold their shares. This process is known as 'pump and dump'. It was viewed that Mr. Lay and Mr. Skilling's management practices solely concentrated on increasing share price in order to create impression, issue incentives in the form of stock and sell their incentive stock at a high price. It was perhaps due to the selfishness and jealousy of the senior executives.

Another bandwagon of public relation activity that this dirty team played was describing the company as a money-spinning, progressive and creative one, even though its activities were portraying a negative picture.

**Mr. Jeffrey Skilling:** It was viewed that Mr. Skilling was the key person in the entire Enron scandal. His 'greedy and purpose-based bullying' was alleged to have ruined shareholders, employees, creditors and the company as a whole. It was felt that his background in financial consultancy and knowledge of financial models moulded his mind to view Enron as a financial service company. Financial service companies generally plan for short-term gains, rather than long-term gains, as its business depends on the daily/short-term trends of prices in the stock market.

It was indicated that Mr. Skilling forgot the basic nature of Enron's business and applied financial models to make quick money. The natural gas company, when forcibly fit into the mould of a financial company, broke into pieces. It was noticed that Mr. Skilling introduced the financial model of intermediary rather than an operations company to make quick money. It was further indicated that Mr. Skilling's fabricating skills of making a hallow company or a company without operations based on sound fundamentals led to window dressing of even the core operations and, thereby, finances of the company.

Mr. Skilling's greed resulted in introducing the issuance of stocks as incentives, using accounting tricks to fabricate financial statements to inflate Enron's share price in order to offload the stock received as incentive. Thus, the greedy trait of Mr. Skilling led to Enron's collapse.

Another trait of Skilling, as noticed, was his ‘purpose-based bullying’, making him fire and hire people. It was indicated that he used to fire those who didn’t align with him and hire those who could align with him when it comes to window dressing, misappropriation of financial statements and other tactics of recording unearned profits. It was strongly felt that ‘make-to-market’ accounting was one of the key models forcibly introduced by Mr. Skilling that enabled the company to perform window-dressing tactics.

**Mrs.Sukanya Devi:** Professor, could you please relate the sayings of Lord Sri Krishna to the characters of the people responsible for the Enron scandal?

**Professor:** Mrs. Sukanya Devi, I will do relate.

Verse 4 of Chapter 16 of Bhagavad Gita provides for the demonic characteristics of people. These include vainglory, arrogance, pride, anger, harshness and ignorance.

It was alleged that Mr. Skilling was arrogant and was bullying his subordinates [39]. Thus, his fundamental personality trait of ‘greed and purpose-based bullying’ inflated by his background in the financial sector and financial models were fundamentally responsible for the decay of Enron.

Verse 9 of Chapter 18 of Bhagavad Gita indicates that ‘A prescribed duty which is performed simply because it has to be performed, giving up attachment and fruit, that alone has been recognised as the Sattvika form of renunciation’. [40]

It is clear that goodness results from two things: (i) doing the prescribed duty (ii) without attachment to the fruit of the work. It was viewed that Mr. Skilling didn’t do his prescribed duties; rather, he was responsible for issuing shares in the name of executive incentives and manipulated share prices in addition to window-dressing the financial statements. Thus, he couldn’t satisfy the first condition of goodness. His manipulations were in anticipation of the financial gains to himself and his gang at the cost of the interests of the shareholders, lower level employees and all other stakeholders. Thus, Mr. Skilling not only failed to satisfy the second condition but also harmed junior rank staff, the shareholders and all other parties connected to the company. Mr. Skilling not only lacked goodness but also possesses characteristics of badness as he was responsible for harming many.

**Mrs.Kiranmayi:** Professor, thank you for the interpretation. What was the interest of Enron’s auditors in conspiring with the cheating management?

**Professor:** Mrs. Kiranmayi, let me explain the interest of some executives of Arthur Andersen-Auditors.

**Arthur Andersen** Now another question is: Why did Enron’s accounting firm, Arthur Andersen, also cooperated with the actions of the senior executives? In fact, it was stated that most of the deals that led to the ruin of Enron were carried out with the permission of Arthur Andersen. It was viewed that a few executives of Arthur

Andersen violated professional standards for high fees. Arthur Andersen earned consulting fees of \$27 million in addition to auditing fees of \$25 million in 2000. This amount is 27% of the audit fees earned by Arthur Andersen's Houston Office in 2000. It was criticised that employees of Andersen didn't have enough experience to audit complex accounts of Enron. It was also criticised that Arthur Andersen compromised professional standards and accounting rules and standards.

Did Arthur Andersen's executives receive kickbacks in addition to high fees? Was it negligent of its responsibilities, like PricewaterhouseCoopers in the case of the Satyam scandal? Anyhow, scandals become possible only when intelligent and greedy executives of a company as well as audit firms come together and work as a gang of thieves. The Enron scandal happened because of intelligent greedy executives, and Andersen took part in the criminal behaviour of Enron, consequently experiencing loss of business, which almost led to its liquidation.

**Ishani:** Professor, thank you for the analysis with regard to the role of auditors. Did the credit rating agencies also have a similar intention as Arthur Andersen?

**Professor:** Ishani, good question. I am going to explain.

**Credit Rating Agencies:** Now another issue is: Why did Fortune 500 rank Enron as the 7th best company in 2000? Did it investigate or just depended on data and information provided by Enron's bandwagon of experts? Fortune 500 failed to check the authenticity of the data and information provided by Enron and thus became part of the criminal behaviour of Enron in cheating shareholders, employees, creditors and the public.

However, credit rating agencies, viz. Moody's, Fitch Ratings and Standard & Poor's, had played an apt role by downgrading the company's credit rating in 2001. But this downgrading forced Enron to issue further stocks to cover loans. This action further reduced the share price. Thus, the downgrade, though was done aptly, resulted in further loss to the shareholders.

**Mr. Naresh:** Professor, I think there is adequate legal protection in the US, but how did this scandal happen?

**Professor:** It was lack of adequate ethical attitude as well as commitment to the trusteeship. I will explain in detail.

Failure to prevent the corporate scandals of Enron, WorldCom, Tyco, Global Crossing and Parmalat, despite the regulation of corporate governance mechanisms in the US and the UK and the ethical guidelines across the world, provided a new thinking on trusteeship [41].

### ***Why Did They Fail to Act as Trustees?***

Ownership and management are separate in joint stock companies, and hence the management should act as trustees of the investment of the shareholders/owners. In addition, the management should also act as trustees of other stakeholders, like the government, employees, creditors and the society. Executives are paid salaries for their services and given perks as incentives to perform their job with dedication up to the highest level of their abilities and potentialities. It does mean that executives should not aspire more than salaries and perks and should not be greedy as they deal with a lot of resources that don't belong to them but belong to shareholders and other stakeholders.

Mahatma Gandhi advocated 'trusteeship'. 'He conceived trusteeship as a system wherein the individual considers that part of his wealth in excess of his needs as being held in trust for the larger good of society and acts accordingly' [42]. Gandhi's meaning of the term is based on spirituality. I am not considering Gandhi's meaning of trusteeship as it is quite broader. Here, I use the dictionary meaning of trustee. Trustee, according to online Webster's Dictionary is 'a natural or legal person to whom property is legally committed to be administered for the benefit of a beneficiary...'. Another meaning of trustee is 'one (such as a corporate director) occupying a position of trust and performing functions comparable to those of a trustee' [43].

Therefore, the board of directors, managing director/chief executive officer and executives of Enron should have acted as trustees as the property belongs to millions of shareholders and the operations of the business have a bearing on the current and future society, including employees.

Executives of Enron might have made decisions that favoured the executives/management, not the shareholders/owners and other stakeholders, including lower level employees, which is contrary to the concept of trusteeship.

**Mr. Narayana:** Professor, you made it so clear that the board of directors and senior executives of Enron failed to act as trustees. What was the reason for their failure to act as trustees?

**Professor:** Mr. Narayana, I will explain.

All the stakeholders might have pointed their fingers towards the chief executive officer, Mr. Kenneth Lay. It was viewed that Mr. Kenneth Lay was more of a lenient leader and hence was unable to track Mr. Skilling's activities despite prior red signals. Lenient leaders are more or less like laissez-faire leaders. Laissez-faire leaders mostly delegate the work to subordinates and excessively depend on a subordinate or a group of subordinates to craft as well as implement strategies. The group members motivate and direct themselves, or one of the group members leads the rest of the group. Laissez-faire leaders allow subordinates to make decisions and implement them even without informing the leader. They provide little or no direction to their followers. A laissez-faire leadership style results in almost a no-governance situation.

A laissez-faire leadership style is suitable when the followers are skilful, creative, self-motivated, mature, committed and responsible and abide by high ethical standards. A follower's style having these characteristics may be termed as 'able-accountable followership style'.

In fact, there are some laissez-faire leaders, like Steve Jobs and US former President Herbert Hoover, who were effective and produced best positive results. Steve Jobs used to give freedom to his followers and allowed them to produce results as was expected of them. They produce results according to expectations mostly due to their potentiality, creativity, ability to work in teams, responsibility, commitment and ethical values. Herbert Hoover was well known for incorporating additional laissez-faire style to managing. He used to allow more experienced advisors to take on tasks where he lacked knowledge and expertise. He was effective as his followers were ethical, responsible, committed and effective [44]. Thus, a laissez-faire leadership style may be suitable if the subordinates have an 'able-accountable followership style'.

**Mr. Ram:** Professor, I hope you are explaining the case in relation to the leadership and followership styles in Enron.

**Professor:** Yes, Mr. Ram! You got the point. I will relate these two styles to strategy also. Let me proceed further.

**A Match Between Strategy, Leadership Style and Followership Style:** There should be a match between leadership style, followership style and strategy/situations in order to obtain the expected outcome [45]. A match between laissez-faire leadership style and skilful, creative, self-motivated, mature, responsible and abiding by high ethical standard followership style would produce the expected outcome. However, these two factors should match the strategy/situation. The strategy/situation that matches these two factors is innovation. It does mean that the innovation strategy of the company requires a laissez-faire leadership style and a skilful, creative, self-motivated, mature, responsible and abiding by high ethical standard followership style.

**Match vs Mismatch in Enron:** Now we shall analyse whether these factors could match Enron or not. Mr. Kenneth Lay's leadership style was viewed as laissez-faire. His prime follower, Mr. Skilling, was viewed as irresponsible and not abiding by ethical standards. Mr. Skilling got his subordinates together, who were willing to follow his unethical practices, and also employed people who followed his directions. It was claimed that he introduced systems to fabricate accounting statements as per requirements for increasing share prices. Further criticism was that he also introduced an incentive system that resulted in the issue of additional shares, which contributed to the decline in share price. In addition, it was viewed that the followers of Mr. Lay and Mr. Skilling used insider information to download the shares obtained by executives through a stock option scheme. Thus, it was viewed that most of the subordinates of Mr. Lay, particularly Mr. Skilling, were unethical.

It was further asserted that Mr. Skilling and his colleagues were also not able to enhance the financial position of Enron by strengthening the fundamentals of Enron's business operations. Hence, they contributed to boosting up Enron's finances and share price artificially. Thus, the followers of Mr. Kenneth Lay were unable to perform what was expected of them. They were either directed by Mr. Skilling or self-motivated to follow unethical standards. Thus, followers of Mr. Kenneth Lay do not have an 'able-accountable' followership style.

Enron's strategy was not innovation of product. It was more of boosting up of financial position through enhancing the volume of business by crafting and implementing expansion and diversification strategies. Thus, the strategies crafted and implemented by Enron were expansion and diversification but not innovation.

There was a mismatch of the leadership style (*laissez-faire*) of Mr. Kenneth Lay with the followership style of Mr. Skilling and his associates (ulterior style of cheating and window-dressing) and the expansion and diversification strategy. No matching of strategy, leadership style and followership style took place in Enron.

Thus, this mismatch in the leadership style, followership style and company strategy led to the bankruptcy of Enron. The most vital aspect here was the mismatch between the leadership and followership styles. Had the *laissez-faire* leadership style of Mr. Lay been supported by an able-accountable and ethical followership style, there wouldn't have been bankruptcy in Enron, as even if the strategy didn't match, the leader and follower would have re-crafted a new strategy.

Further factors include Mr. Lay's low involvement in Mr. Skilling and his group's activities, low accountability, and passive and avoidance attitude, which also encouraged Mr. Skilling to play more active ulterior and impression management roles. Mr. Kenneth Lay was responsible for blindly believing in Mr. Skilling, even after working with him for a reasonable period of time. Had he changed Mr. Skilling's followership style or job position in Enron or had he changed his leadership style, Enron would have been saved. Further, had Mr. Lay adapted an authoritative approach in supervising and controlling Mr. Skilling after failing to change his followership style or the position of Mr. Skilling, he would have saved the company. Thus, Mr. Lay's leadership style and his inability to replace Mr. Skilling and to adapt an authoritative style might be one of the major reasons for the bankruptcy of Enron.

Research studies also indicate that a *laissez-faire* leadership would be either less effective or not effective [46]. A *laissez-faire* leadership style would be less effective when it won't fit with the strategy and followership style.

**Mrs. Sukanya Devi:** Professor, thank you very much for your detailed analysis. Your analysis raised in me a nagging question. Why did Mr. Lay adapt and continue with his *laissez-faire* leadership style even when he received red signals? Could it be due to his 'leniency'? Why didn't he change his personality trait of leniency to toughness even when the situation warranted it?

**Professor:** Mrs. Devi, quite an apt question. Now let us analyse whether a personality trait can be changed depending upon the situation. It is normally believed that a personality trait can't be changed [47]. Researchers at the University of Chicago, based on an analysis of over 200 clinical studies on people with mental health

issues, observed shifts in personality traits. However, Roberts couldn't support these observations and reiterated that personality traits normally won't shift, at least in the short run [48].

It may thus be viewed that personality traits can't be shifted, and as such Mr. Lay couldn't shift his personality trait of leniency. Mr. Lay has a laissez-faire leadership style, owing to his personality trait of being lenient. Now we may view that the leniency personality trait of Mr. Lay was one of the significantly responsible causes of Enron's demise. However, we also study the followership style and personality trait of Mr. Skilling.

It was viewed that Mr. Skilling exhibited traits like greed, bullying, fabrication and self-oriented intelligence in managing Enron. These traits might have influenced Mr. Skilling to cheat the shareholders, rating companies and creditors through his window-dressing skills. These traits of Mr. Skilling might have led him to adapt a followership style of 'ulterior style of cheating and window-dressing'. This followership style didn't match with the laissez-faire leadership style of Mr. Lay. Mr. Skilling's followership style might have resulted in making use of the situation for his short-term self-benefit. It was also viewed that his bullying trait made him the incompetent autocrat in his transactions with his subordinates.

Thus, leadership and followership styles influenced by the personality traits of Mr. Lay and Mr. Skilling perhaps didn't match with Enron's overall interest.

**Mr. Nitin:** Professor, you have explained quite elaborately about Mr. Lay and Mr. Skilling. We are delighted with your analysis. Are there some more personalities responsible for the scandal?

**Professor:** Thank you, Mr. Nitin. Yes, there are some more personalities responsible. Now we discuss other important executives responsible for the Enron scandal. These executives include Ms. Rebecca Mark, Mr. Andy Fastow, Mr. Ken Rice, Mr. Cliff Baxter and Mr. Lou Pai.

Close lieutenants of Mr. Skilling include Mr. Andy Fastow, Mr. Ken Rice, Mr. Lou Pai, Mr. Cliff Baxter, Mr. Ben Glisan and Mr. Michael Kopper. These lieutenants, in collaboration with Mr. Ben Glisan and Mr. Michael Kopper, might have helped Mr. Skilling in formulating financial schemes to present a glorious picture of Enron when its financial position was gloomy. Thus, they might have contributed significantly to cheating rating companies, auditors and all other stakeholders and inflating the share price of the company. These schemes perhaps resulted in the issuance of more equity to the senior executives in the name of incentives, which led to the fall of share price, resulting in an immoral and unethical culture. This culture could have damaged the shareholders, suppliers, customers and even colleagues of these cheaters.

It was viewed that Mr. Ken Rice committed fraud while heading the broadband division of Enron. Mr. Low Pai encashed the highest prices of Enron's shares by selling his holdings. He also perhaps helped Mr. Skilling and other corrupted executives in selling their shares. Mr. Baxter might have made a number of corruptive deals between Enron and other companies [49].

It was claimed that all these executives became followers and collaborators of Mr. Skilling in the Enron scandal due to their greed. Mr. Kenneth Lay's negligence of his duties, like monitoring his subordinates and being aware of the greed of his subordinates, resulted in the violation of the role of almost all the executives as trustees of Enron.

**Mr. Rohan:** Professor, thanks for your detailed analysis. Further, I'm wondering about the values of Enron, just to know whether the management attempted to follow them or posed a blind eye to them. Could you please explain?

**Professor:** Mr. Rohan, thank you. I will do.

**Enron's values were:** Respect, integrity, communication and excellence [50].

**Rohan:** Professor, thank you. It seems to me that Enron's executives, including the CEO, posed a blind eye towards the above-stated values. These values were only meant for publishing in annual reports as well as displaying on company walls.

It was felt that had Enron's management, particularly Mr. Skilling and his gang of greedy executives, believed in what they stated in their value statement, the scandal wouldn't have taken place. The entire episode was contrary to the company's value statement. This indicated that some management, like Enron's, formulate value statements for fancy and to deceive the ignorant stakeholders, including the shareholders.

**Professor:** Rohan, I appreciate your feelings. Now we discuss whether Enron followed at least the concept of 'greater good'.

Greater good is a common expression that denotes a benefit to the public, to other people rather than to oneself [51]. Enron executives favoured themselves only by causing harm to a greater number of stakeholders, like the shareholders, creditors, suppliers, market intermediaries and lower rank employees. The gang of executives in Enron did the opposite of the concept of 'greater good'.

Verse 12 of Chapter 3 of Bhagavad Gita indicates that one who enjoys the supplies of others and won't return them to the one who supplies them is called a thief. It was stated that Mr. Lay, Mr. Skilling and their team used the capital provided by shareholders and didn't return the benefits to them. It was rather viewed that they obtained the benefits through unethical and illegal means and enjoyed them all for themselves. Hence, they may be called thieves as per Bhagavad Gita.

**Rohan:** Professor, thank you for your interpretation of the preaching of Lord Sri Krishna.

**Professor:** Rohan and others, I appreciate your exciting engagement in the discussions. We shall now analyse the case of Dr. Vijay Mallya and Kingfisher, which is related to trusteeship, even though it is premature at this juncture as this case is still in the process of settlement with the banks and the Government of India.

## Dr. Mallya and Kingfisher

Dr. Vijay Mallya was elevated to the position of chairman of United Breweries Group in 1983, when he was 28 years old, due to the death of his father. He developed the group into a conglomerate and consolidated various companies in the name of 'UB Group'. He diversified the group and acquired various companies, like Berger Paints, Best and Crompton, Mangalore Chemicals and Fertilisers, and Cine Blitz, a Bollywood magazine [52]. The Group's major portfolios, like Kingfisher and United Spirit's Limited, grew phenomenally in terms of market share and sales in a number of countries.

The spectacular growth of United Group prompted Dr. Mallya to establish Kingfisher Airlines in 2005. Kingfisher Airlines approached IDBI for a loan in 2005, but the credit committee of IDBI rejected the proposal even during the economic optimistic period of the country as the general economic boom of the country did not translate into a boom in the airline industry in view of high competition and raising oil prices during that period. Added to that, IDBI encountered lending problems with Mallya when he acquired Mangalore Chemicals and Fertilisers Limited.

However, IDBI granted and released a loan to Kingfisher amounting to Rs. 900 crores in 2009, but this irked the bank as Dr. Mallya became a defaulter and was facing an enquiry by the Central Bureau of Investigation [53].

**Mr. Mukund:** Professor, could you please analyse Mr. Mallya's personality?

**Professor:** Mr. Mukund, why did you ask this question untimely?

**Mr. Mukund:** Professor, IDBI rejected a loan application by Kingfisher in 2005 and granted the same in 2009. I thought that the personality of Mr. Mallya might have influenced the reversal of the decision of IDBI.

**Professor:** Good inquisitive question, Mr. Mukund. I will attempt to explain. Just give me a few minutes to state other events.

**Mr. Mukund:** Professor, thank you.

**Professor:** It was viewed that the good times of Mr. Mallya turned to be completely bad times, and Kingfisher Airlines brought all ill to Dr. Mallya. But Mallya announced and asserted that his airline would be a premium, world-class airline and, hence, service standards were provided accordingly. Consequently, Kingfisher attracted passengers. Contrary to the expectations of the business people, Mallya acquired the bleeding Air Deccan for almost Rs. 1000 crores in 2007, which perhaps caused irrecoverable damages to Kingfisher, leading to its insolvency [54].

Before Kingfisher became insolvent, the company failed to pay salaries to employees; repay bank loans, including interest; pay taxes to various government departments; and pay airport user charges to GMR Hyderabad International Airport

Ltd. Thus, the 'King of Good Times' became a 'Centre of Controversies' starting 2012.

Mallya borrowed around Rs. 9000 crores from 17 Indian banks and perhaps used the money thus borrowed to invest in around 40 companies in various countries [55]. These banks elevated the issue to the Supreme Court of India in March 2016 and tried to stop Dr. Mallya from departing India. However, Dr. Mallya had already left India by that time [56]. The Department of Income Tax, Central Bureau of Investigations and other Governmental agencies have been investigating the case, and the Enforcement Directorate filed a money laundering case in March 2016 against Dr. Vijay Mallya [57].

The Enforcement Directorate attached assets of Vijay Mallya worth Rs. 9661 crores in June and December 2016 because of unpaid loans, in accordance with the Prevention of Money Laundering Act [58].

Dr. Mallya – King of the Best Times – is now responsible for the collapse of Kingfisher and for causing loss to the shareholders, lenders, employees and other stakeholders due to the bankruptcy of the company. An analysis of the case indicates that Mr. Mallya was inclined to go for a wide range of unrelated portfolio diversifications [59].

Because of Dr. Mallya's fashion for owning and dealing with everything, he planned to diversify into telecom, engineering services, cricket and airlines. It was criticised that Dr. Mallya treated diversification like adding a toy by a kid. It was viewed that Mr. Mallya started Kingfisher without an adequate and thoroughly analysed business proposal as most of the investments were financed by shareholders, banks and other stakeholders.

Dr. Mallya defended the establishment of Kingfisher, claiming it would be a world-class airline, when the bankers were hesitant to finance it seeing that the business environment was posing threats to the airline industry, including increasing diesel prices and the willingness and ability of Indians to fly only by budget airlines rather than by luxurious and costly world-class airlines.

A further analysis indicates that an impulsive trait might have overtaken the personality of Dr. Mallya. The conscientiousness factor of the 'Big Five Personality' model indicates the extreme traits of being careful and careless, disciplined and impulsive, and organised and disorganised [60]. The trait of impulsiveness might have influenced Dr. Mallya while floating the idea of Kingfisher, and the 'self-defending' assertion that Kingfisher would be a world-class airline might have influenced him to proceed with the establishment of Kingfisher.

However, the same personality voted for acquiring a budget airline, i.e. Air Deccan. It was criticised that Dr. Mallya took a different approach, despite the adverse business environment for luxurious airlines during the period 2005 to 2010. In fact, Air Deccan was acquired by Dr. Mallya to enable Kingfisher to fly on international routes without consolidating domestic routes/business. However, acquiring Air Deccan became an important factor for the bankruptcy of Kingfisher.

It was claimed that Dr. Mallya was not a serious businessman as he could not seriously enrich his businesses, though he was born/endowed with a billion-dollar

silver spoon when he took charge as the chairman of the United Breweries Group in 1983 after the death of his father.

Another deal by Dr. Mallya that affected the finances of the company was the buying of the 'Producer of World's Premium Scotch', i.e. Whyte & Mackay. He also acquired another company based in Glasgow in 2007 and sold it in 2014 to a Philippine-based company at a loss. Mallya's order for 50 Airbus aircraft (including A320, A330, A350 and A380 aircraft) in 2007 was an impulsive decision and action.

It was claimed that in his desire to acquire companies as part of his portfolio, he could have gotten control of Shaw Wallace in 2002, after the death of Mr. Manu Chhabria, though he had been trying for it since 1980 at a high price of Rs. 1,251 crores.

It was stated that Dr. Mallya spent money lavishly by making a large number of executives attend meetings in foreign countries when it was not required. In addition, he used to own nearly 250 cars, race horses, etc. He also got a special Boeing 737 fitted to his special needs. It was also pointed out that Dr. Mallya didn't differentiate the company's money and banks' money from his personal money.

Dr. Mallya allegedly violated a number of regulations. The Serious Fraud Investigation Office (SFIO) registered a case against Dr. Vijay Mallya and 18 others, levelling concerns such as falsifying of financial reports and default in the payment of loans amounting to Rs. 6400 crores [61]. The Patiala House Court in Delhi declared beleaguered businessman Dr. Vijay Mallya a wrongdoer for avoiding summons in a Foreign Exchange Regulation Act (FERA) defilement case [62]. Dr. Mallya was arrested at the request of Indian authorities in London against the charges of fraud and money laundering [63].

It appears that a senior Supreme Court counsel advised the State Bank of India on 28 February 2016 to approach the courts for an order to restrain Dr. Mallya from leaving the country. But the State Bank of India failed to act in time [64]. The group of banks that provided loans for more than Rs. 9000 crores to Dr. Mallya referred the issue to the Debt Recovery Tribunal, but Dr. Vijay Mallya had already left India before that time, i.e. on 2 March 2016 [65].

**Mr. Mukund:** Professor, thank you for analysing the personality of Dr. Mallya.

**Mrs. Kiranmayi:** Professor, I feel that Dr. Mallya also failed to protect the shareholders, though he used tactics different from those of the executives of Enron.

**Professor:** Mrs. Kiranmayi, you may be right. Dr. Mallya's easy-going personality might have influenced him to deceive the banks and other shareholders. It seems that Dr. Mallya is the main reason for the failure of Kingfisher. We can't analyse this case further and don't know the role of the others as it is not yet a closed case.

**Mr. Narayana:** Professor, could you please explain any other case where the CEO used the company's money for his lavish living?

**Professor:** Mr. Narayana, I explain Tyco International Plc.

## Tyco International

Arthur J. Rosenberg established Tyco International Plc in the Republic of Ireland with its operational head office in Princeton, New Jersey, USA, under the name Tyco International (US) Inc. in 1960. The company's main functions were investment and holding, semiconductors and material research [66].

The mission of Tyco is as follows: 'Tyco is dedicated to advancing fire safety and security by finding innovative ways to save lives, improve businesses and protect people where they live and work.' [67]

The growth of Tyco through acquisitions during 1960s and 2000s resulted in a significant growth in terms of financial results and restructuring of the company. But though a series of acquisitions continued even up to 2002, the financial position of the company started dwindling. This was partly due to recession, which resulted in reduced credit rating. This in turn led to putting off proposal to divide the company into four independent companies in 2002. In addition, the acquisitions in 2002 resulted in heavy losses. The company also spent around \$3 billion in the restructuring process. The former executives, Leo Dennis Kozlowski and his team, enjoyed an extravagant lifestyle [68].

Consequent to the losses, Tyco used a divestment strategy in 2002, and due to the continued heavy losses, Tyco got involved in a scandal, which was crafted by L. [Dennis Kozlowski](#) – former chairman and CEO, along with his senior management team. However, the board of Tyco, in July 2002, appointed Edward D. Breen as president, CEO and chairman. Consequently, a new team of management was also appointed. Federal suits and arbitration claims were filed against Kozlowski – the former CEO – and others as a result of an investigation conducted by Mr. Breen and the new team of management [69].

In addition, it was alleged that Tyco violated the Securities Exchange Act for failing to disclose important financial information and overstating its income in early 2002 [70]. It was also alleged that Kozlowski used the company's money for his personal expenses to lead a lavish lifestyle, including using the company's money for the birthday party of his second wife and to buy personal property [71].

Mr. Mark H. Swartz, chief corporate counsel, and Frank E. Walsh, former director of Tyco, were accused of stealing more than \$10,000,000 from the company [72]. But during trial, they argued that the board of directors authorised them to take this amount as compensation. The trial was declared as a mistrial by Judge Michael Obus on 4 April 2004.

Kozlowski and Swartz were imposed a punishment of jail terms. Kozlowski was imprisoned. Tyco and its auditors – employees of PricewaterhouseCoopers – decided to pay \$2.92 billion to the deceived shareholders, which was approved by [Paul Barbadoro](#), judge of [New Hampshire](#) Federal District Court. Due to its experience from the scandal, Tyco improved its corporate governance under the leadership of John Krol as the lead director. The new corporate governance issued a Guide to Ethical Conduct, which provides for the correct procedures and ethical practices and behaviour of employees.

**Mr. Narayana:** Professor, we see that the auditors of PricewaterhouseCoopers was also involved in unethical acts, like in Satyam's case.

**Mr. Rohan:** Professor, could you please explain a case where a company's activities are against its mission, as was the case of Enron?

**Professor:** Thank you for your question as you set the trend for my next session. I explain JPMorgan Chase & Company for now. I will deal more with such companies in the next session.

**Mr. Rohan:** You are welcome. I also thank you for your compliment.

**Professor:** Rohan, you are welcome. Now I explain JPMorgan Chase & Company's case.

## JP Morgan Chase & Company

JP Morgan Chase & Company is one of the major banks and financial service companies in the US as well as in the world. It occupied the sixth position among banks in the world with a total asset of \$2.535 trillion as of 2018 [73].

The mission statement of JPMorgan Chase & Co is 'to be the best financial services company in the world' [74]. 'At JPMorgan Chase & Co, we want to be the best financial services company in the world. Because of our great heritage and excellent platform, we believe this is within our reach' is the company's vision statement [75].

JPMorgan was involved in leaking information about credit default swaps through one of its trader, referred to as 'London Whale'. The actual identity of the discloser was not reported in the media, but losses could have reached a figure close to \$9 billion as of July 2012 [76]. JPMorgan agreed, on 18 September 2013, to pay US and UK regulators \$920 million in fines and penalties for violation of and breaking the Securities Law [77]. It was indicated that the bank also faced criminal investigations with regard to disposing of mortgage securities in the US and likely bribery in China. The second settlement for \$80 million with the US Office of the Comptroller of the Currency and the Consumer Financial Protection Bureau related to wrongful billing of credit card holders and identity theft protection services [78].

**Ishani:** Professor, though the mission of JPMorgan was 'to be the best financial services company in the world', the company practised unethical activities. Thus, the management twisted its mission.

**Professor:** Ishani, you are right. I will explain some more cases where actions differ from the mission and vision of the company in the next session.

**Nitin:** Professor, I am eagerly waiting for your scholastic interpretation of these cases in relation to *Dharmatman* Lord Sri Krishna's teachings in Bhagavad Gita.

**Professor:** Mr. Nitin, I am happy for your excitement and anxiety. I interpret.

Lord Sri Krishna in Verse 12 of Chapter 3 of Bhagavad Gita says that one who enjoys the benefits given by God without submitting them to God in return is certainly a thief. All resources are given by the God for the benefit of all living beings. It was asserted that capitalism provides a provision for capitalists to enjoy the resources meant for all living beings. But capitalists are also expected to play the role of trustees, so that they can give the resources back to all living beings.

**Mr. Suresh:** Professor, do you think that Mr. Mallya also failed to act as a trustee?

**Professor:** Mr. Suresh, apt observation. Many viewed that the board members and executives of Enron and Dr. Mallaya failed to act as trustees for the resources of the shareholders, banks and other financial companies, as well as for the opportunities of the stakeholders. Thus, it was felt that the executives of Enron and Dr. Mallya exploited the resources of different countries and caused problems to all kinds of stakeholders and the society. Thus, the resources offered by God for the advantage of all were enjoyed by a few, who could be called as thieves in accordance with Verse 12 of Chapter 3 of Bhagavad Gita.

Lord Sri Krishna in Verse 22 of Chapter 3 of Srimad Bahagavadgita states that 'Arjuna there is no duty in all the three worlds for Me to perform, nor is there anything worth attaining, unattained by Me; yet I continue to work'. Similarly, people should discharge their duties responsibly and exemplarily as other people consider them as role models and follow them. Executives and chief executives, like Mr. Lay of Enron and Dr. Vijay Mallya of Kingfisher and the other executives of these companies, should have performed their roles responsibly. Like those of Enron, the executives of Kingfisher also failed to perform their acts responsibly.

Thus, it is viewed that the executives of Enron, Kingfisher and the other companies referred to above, including their CEOs, failed in acting as trustees of the resources of their shareholders and other stakeholders as they enjoyed the shareholders' resources for their benefit. In fact, it was claimed that they preferred to twist the facts during the enquiries. But ultimately, they lost their earnings and also fame, in addition to becoming the reason for the collapse of the companies they represented.

Executives who failed to act responsibly also failed to act as trustees and became the cause of failure of the organisations they represented. In effect, they became responsible for the huge losses to the shareholders and other stakeholders, including the countries in which they operated.

**Mr. Narayana:** Professor, thank you for your analysis and interpretations of the preaching of Bhagawan Sri Krishna.

**Professor:** Thank you all for your attentive listening. We shall proceed with the next session after a break.

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## Chapter 4

### Mission vs. Actions



**Professor** Dear participants, I welcome you all to the fourth session. We have so far discussed the Satyam Computers case in relation to greed, the cases of Enron, Kingfisher and other companies in relation to trusteeship. Now, we shall discuss the cases in relation to the failure of executives and/or owners of companies to carry out the activities stipulated in the missions of their respective companies.

**Mr. Naresh** Professor, I practically forgot the mission of my company and remembered just ‘profits’ while carrying out business. I hope the case of my company is appropriate for discussion in this session. Shall I explain the case of my company?

**Professor** Mr. Naresh, you can speak.

**Mr. Naresh** Thank you, Professor and co-participants.

Since my childhood, I have been fond of preserving whatever that comes to me without allowing any one else to touch it or use it or share it. When I was growing up, my parents tried to distribute my toys, books and clothes to others, but I never allowed them to do so. In fact, I was not using them but simply stored them in a corner of my room. When my parents were asking me to distribute them and clean up the room, I used to simply relocate them to the store room, rather than distributing them to anyone else. I used to spend a lot of time and energy to clean them up and put them back. I didn’t know why I was doing it; of course, it may be due to my habit of not parting with any one of mine. But I was gathering others’ books, toys, electronics etc. My parents used to scold me, saying ‘what is this habit? You don’t part with, but you expect others to part with!’

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Note: The meanings of the verses of Bhagavad Gita are taken from Srimad Bhagavadgita, published by Gita Press Gorakhpur India, 2019, with permission from the publisher.

I used to do the same when I was in high school as well as in college. I used to collect books and stationery more than what's required and used to accumulate them for future purposes. My class teacher as well as classmates used to think that I was a crazy guy.

My habit of accumulating without sharing continued even during my university studies. To cite a few incidents, I used to collect rare books from the library and professors, keep them with me until the examinations were over. Similarly, when one of our professors asked me to pass the communication about the rescheduling of test date to all my classmates, I didn't do it purposefully. In a sense, I didn't want to part with the information also. In fact, I didn't have any advantage in doing so.

I forgot to inform you about my family. Ours is a business family. My grandfather owned a small oil extracting plant, and my father expanded it and also established a food processing plant. Both conducted businesses most ethically with humane approach and earned a good name and brand image. They earned and spent a lot of money. Ultimately, they couldn't save much for me. The unwritten mission of our family business was 'to meet basic needs of the society with humane'. In fact, I used to hear these words from the stakeholders (especially customers) of our family business.

I have developed a selfish attitude since my childhood as my grandmother used to tell me that 'your grandfather earns a lot, but also distributes a lot and consequently, we couldn't save much'. I used to ask my grandmother how he distributed. She used to say that by 'paying higher salaries to staff, by paying liberally to the suppliers and by allowing huge discounts to the dealers and by donating large sums for all kinds of purposes of various social groups compared to other business people'. She used to quote comparative examples of my grandfather and other business people.

My mother also used to give a similar impression to me about my father and also murmured about my father even in my presence. In fact, my mother used to say that 'stakeholders of business are dearer to your father rather than family members'. Added to this, both my mother and grandmother used to join together in criticising my grandfather and father.

I used to listen to my grandmother and mother carefully and also most interestingly. I used to ask them, 'why are you angry with grandfather and daddy?' They used to say that these two gentlemen were not accumulating wealth, but rather they were distributing to all. What I understood at that age was that they were more of humanistic and less of business bent of mind, unlike our competitors and other business people.

I completed my MBA and started working for an oil company with a view to acquiring skills from different companies despite the pressure exercised by my grandmother and mother to join our existing businesses. In fact, I worked in three types of companies, viz. an oil company, a property development company and a mobile company. I learnt the skills of minimising expenditure as well as maximising revenue at any cost and at the same time maintaining human relations most commercially.

After working for five years in three companies, I returned home and told my grandmother and mother that I would now take on the position of chief executive officer, replacing both my grandfather and father. Both of them were excited and championed my cause and easily convinced my grandfather to retire without much effort. However, they used all tactics and convinced my father to be the chairman of the board. Thus, they paved the way for me to become the chief executive officer of our company.

I started strategising the expenditure aspect first. I identified the areas on where to rationalise, where to minimise and where to cut the expenditure. I linked employees' salaries to efficiency, like procuring inputs at lower prices, offering less discounts to dealers, reducing the cost of capital, reducing the input cost even though it may result in reducing product quality to some extent etc. Of course my grandfather used to criticise me for lowering quality as it affects customer's well-being. I encouraged the senior staff to leave and filled those vacancies with young staff in order to reduce the cost of staff. I'll tell you one simple issue with regard to my cost-cutting strategy. My cost-cutting measures were stringent, and sometimes I used to ignore the instructions of regulatory bodies. In addition, I instructed our store department to issue stapler pins also by counting pins and account for the same. It took two years to reduce the expenditure by around 30%. I used to discuss with my family members as and when I used to get phenomenal results. My grandmother and mother were jubilant because of my achievements. However, my grandfather used to say that I am a pinchpenny. My father used to openly criticise me, saying that I will ruin the business in the long run. I used to pay deaf ears to both.

I expanded the businesses by reinvesting the money I saved by reducing the expenditure. Now, I applied the same principle on family expenditure too. Then my mother joined my father in attacking me. But I had become thick-skinned by that time as most of the employees were also criticising me silently. I should say one thing, I used to cut even stationery, travel, basic staff amenities, and the list goes on...

I linked salaries of staff to their performances, like sales, adding value at every level of supply chain and increasing productivity. In fact, I used the problems of unemployment and under-employment for my advantage. I reduced discounts to dealers much below the existing discounts and reduced the cost of all kinds of inputs. I preferred to change the dealers and input suppliers rather than yielding to their terms.

These measures helped me to reduce cost and increase revenue. Thus, I enhanced total profits by more than 70% and started accumulating profits. I invested my accumulated profits for two years in a real estate project. This turned my luck as I started earning 300% profits in my real estate business.

In the meantime, my grandparents kicked the bucket. My grandmother was so happy of my performance in accumulating wealth before she left for her heavenly abode. In contrast, my grandfather was quite unhappy and used to accuse me of being inhuman in my cost-cutting strategies and performing unethical practices to reduce quality and particularly in my real estate business. However, I used to ignore him.

However, I continued using the strategy of cost-cutting. My real estate business provided a wonderful opportunity for me to earn more than 300% profit; of course there are some unethical practices, bluffing and cheating. I didn't mind much of this as accumulating wealth has been my goal, which was not of my father as well as grandfather.

It continued like this for years altogether. I accumulated wealth worth thousands of crores. I converted my oil and food processing businesses from a partnership to a public limited company and mobilised a lot of money through the issue of equity shares.

I should thank my auditors as they provided a wonderful strategy to maximise my net worth. This strategy was window dressing the financial statements of our public limited company, artificially increasing the market price of the shares, offloading most of my shares and investing the money thus earned in real estate. This strategy attracted all my senses. However, my sixth sense indicated that it would result in gross misconduct. I spent two sleepless nights, and finally my greed won over the caution of my sixth sense. I implemented this strategy with the help of our auditors. Of course, I rewarded our auditors for this strategy.

One day my father told me silently and he questioned my inner self. He asked me, 'what you will do with all these thousands of crores of rupees. How did you earn this money? How many people were made to suffer and sacrifice for your cause? In the sense, how many people were cheated by you and/or troubled by you? How many families were ruined in the process? Did you know that how many people couldn't live their due life because of you? Did you ever think that how people could not continue their studies because of you? Did you know that how many couldn't get proper medication because of your inhuman business practices?'

'Did you really add any value to the society? You stopped having trickling benefit of circulation of thousands of crores by accumulating your wealth. What is its impact on lives of people, society and economy?'

'You did all this just for your satisfaction of mere accumulation. Do you remember your written mission statement? Did you achieve it? You seem to be a hypocrite. What is your gain? What is the cost to all the stakeholders? Did you calculate the cost-benefit analysis of your business practices and/or strategies? Do you now feel it is worthy?'

I failed to take care of all stakeholders duly and comprehensively as I concentrated on profit maximisation of my company which might have led to slow-down of rotation of resource cycle.

Bhagawan Sri Krishna in Verse 16 of Chapter 3 of Sri Bhagavad Gita said: 'Arjuna who does not follow the wheel of creation thus set in motion in this world, i.e., does not perform his duties, leads to a sinful and sensual life, he lives in vain.' People should follow the cycle of sacrifice so that resources are used for the well-being of all. People who fail to follow the cycle of sacrifice in performing their duties stop the trickling down of benefits/resources and use the resources for themselves and lead a sinful life.

Now, I boggled my brain and mind and discussed critically with myself the questions of my dad. I realised within myself that my children and myself can't enjoy all the money I earned by cheating the stakeholders. I also realised that all the questions of my dad were relevant.

I surrendered to my father and told him silently that I failed even as a businessman...

**Professor** Mr. Naresh, thank you for the interesting case. The essence of your case would corroborate the cases I would like to take up now.

Participants, against the background of the case presented by Naresh, we now examine the business practices of some of the companies who crafted a sound mission but practised the strategy of just profit making.

## Nestlé Corporation

Nestlé is a transnational company with headquarters situated in Vevey, Vaud, Switzerland. Nestlé has over 8000 brands [1] with a wide range of products across a number of markets, including coffee, bottled water, milk shakes and other beverages, breakfast cereals, infant food, healthcare nutrition, seasonings, soups and sauces, frozen and refrigerated food and petfood [2]. Nestlé has 447 factories, operates in 194 countries and employs around 339,000 people [3]. It is the biggest food company in the world, with a market capitalisation of roughly 231 billion Swiss francs, which is more than US\$ 247 billion, as of May 2015 [4].

Nestlé's mission statement is 'Good Food, Good Life'. Nestle emphasises on taste, nutrition range and in varied times [5].

The mission of Nestlé is self-explanatory; it indicates that Nestlé offers good products to its consumers. However, in contrast to this mission, it received some criticisms about its business practices. We shall now discuss these business practices.

The marketing of artificial baby milk or infant formula by Nestlé, which motivated mothers in various countries to resort to bottle feeding, was viewed as misleading and harmful and also violating international standards.

Nestlé Corporation was widely criticised because of some of its business practices and strategies. It was alleged to have practised aggressive marketing strategies and techniques, including appointing 'uninformed nurses to distribute the baby formula and leaflets for free in hospitals and maternity wards in developing world, such as Ethiopia and Indonesia' [6].

It was also alleged that the formula was unfit for newborn babies of developing countries as:

- The formula was unhealthy for newborn babies.
- The formula was highly costly for consumers in developing countries.
- Children in developing countries were forced to consume milk containing less nutrients and vitamins.

- Clean water had not been available in developing countries, which is a prerequisite for the formula.
- Mothers in developing countries were less educated, who could not understand the formula, including its weaknesses, sanitation and nutritional needs.
- Written communication on the labels of the product was not translated to local languages, and hence the mothers could not understand the guidelines of using the product.
- Consequently, the use of the formula resulted in widespread diseases and diarrhea [7].

In addition, it was alleged that Nestlé:

- Distributed gifts to health workers and hospitals for promoting the formula; and
- Sponsored hospital products, such as wrist bands and nurses' prescription pads.

Dr. Stephan Joseph, an official of the United States Agency for International Development, argued that Nestlé's marketing techniques in promoting the formula resulted in malnutrition and diarrheal diseases and consequently the death of millions of infants every year [8].

New Internationalist magazine wrote about the aggressive marketing strategy of Nestlé in 1973, and British non-government organisation (NGO) War on Want made a brochure titled 'The Baby Killer', which was printed in 1974. Additionally, the [Infant Formula Action Coalition](#) (INFACT) organised a boycott in Minneapolis, the USA. Similar boycotts were also organised in Canada, Australia, New Zealand and Europe. It was stated that these boycotts led to the following:

- (1) Public hearing by the US Senate regarding the promotion of substitute products to breast milk in developing countries in 1979.
- (2) The World Health Organization (WHO) and the United Nations Children's Fund (UNICEF) demanding for the drafting of an international code of marketing and initiation of action in various other areas in order to advance newborn baby and child feeding methods.
- (3) The forming of the International Baby Food Action Network (IBFAN) by a network of six groups. [9]
- (4) The adoption of a resolution by the 34th World Health Assembly (WHA34.22), which consists of the International Code of Marketing of Breast-Milk Substitutes, covering newborn baby recipes and other milk food and beverages. It imposed bans on the marketing of alternatives to breast milk and assigned the responsibility of advising the parties concerned to manufacturing companies. It made it obligatory on the part of manufacturing companies to provide truthful communication to all parties concerned and to provide correct information on labels [10].

The boycott was officially suspended in 1984, when an agreement was reached between the coordinators of the boycott and Nestlé requiring Nestlé to execute the Code. But the embargo was relaunched in 1989, when IBFAN alleged that formula companies started flooding developing countries with well-being services and ame-

nities with no cost and, in 1988, with low-priced products [11]. The UK Advertising Standards Authority issued a verdict against Nestlé. However, the company argued that it marketed infant formula fairly and sensibly. But the UK [Advertising Standards Authority](#), based on proof supplied by demonstration group Baby Milk Action, held that Nestlé was not right in its claims [12].

The baby milk scandal amounted to a sick toll of 13,000 babies in and outside of mainland China [13]. The Taiwan health ministry found melamine problems in milk powders produced in China on 2 October 2008 and ordered Nestlé to remove the products from shelves [14]. In 2013, Nestlé took steps to correct the situation [15].

In view of the violent marketing practices for promoting breast milk alternatives in the third world by Nestlé Corporation, a boycott was organised against Nestlé in the United States on 7 July 1977, which subsequently spread in European countries during the 1980s. The International Baby Food Action Network (IBFAN) monitored the selling activities of Nestlé, along with other companies; as such, the boycott stopped, but later on it continued. The International Nestlé Boycott Committee coordinated the embargo in 2013 [16]. In addition to the embargo, the implementation of the Code and the Resolution in legislation was insisted, resulting in the enactment of laws in almost 60 countries [17].

Many educational institutions, associations of students, trading and industrial houses, medical professionals, spiritual groups, customers, local government bodies, employees' associations, scholars, members of Parliament and prominent persons supported a boycott against Nestlé products. The Oxford University Student Union, on 9 June 2006, started the ban [18]. Laos-based global non-government organisations like Save the Children, Oxfam, CARE International, Plan International and World Vision also initiated an embargo of Nestlé products in the Asia-Pacific region and wrote publicly to Nestlé in 2011 [19]. However, Nestlé did not accept the allegations [20].

Nestlé's aggressive marketing strategies were criticised and were claimed to have contributed to infant deaths in many countries, particularly in the developing world. Nestlé argued that its newborn child milk safeguards newborn children, but some of the newborn children who drank the formula fell sick. The World Health Organization nevertheless reported that breastfeeding could prevent deaths among children under the age of 0–23 months. In addition, expensive baby food may contribute to poverty, particularly in developing countries, and poverty in the latter resulted in infant mortality. Thus, Nestlé's marketing slogans and aggressive marketing strategies may contribute to deaths of babies in developing countries. However, Nestlé dropped the slogan 'natural start' due to boycott campaigns in mid-2015.

The actions and behaviour of Nestlé were found to be not illegal as per the laws of various countries where Nestlé undertook aggressive marketing, but they may be unethical. In fact, the regulations of WHO and UNICEF were not legally binding on the part of Nestlé. It was stated that WHO during that time found that the mortality ratio for newborn children who were fed breast milk and Nestlé milk was 1:5 [21].

However, it was asserted that Nestlé violated the Public Relations Consultants Association Codes of Conduct, which provided that no inducements, financial or

non-financial, should be offered to public representatives during a sale, as Nestlé offered inducements to nurses. Similarly, it was raised that Nestlé violated other principles like avoiding undue persuasion of officials in public office, of newspapers and of other stakeholders; providing true and accurate information; taking all efforts to avoid providing false and inaccurate information; strictly following the UN Charter and the Universal Declaration of Human Rights; conducting occupational actions in order to protect the people; and providing balanced and accurate information to members of the public relations community or healthcare community [22].

The Government of India enacted the Infant Milk Substitutes (IMS) Act, which states that businesses dealing in infant milk should not offer any incentives to people in the medical and health profession, including sponsoring conferences, research etc. But it was alleged by Union Health Secretary Preeti Sudan through a letter of 11 January 2019 to the Ministry of Women and Child Development (which is authorised to implement the IMS Act) that the Nestlé Nutrition Institute breached the IMS Act by sponsoring a 'scientific' workshop for Indian doctors on 24 October 2018 in Hotel Spice Treat in Dhule district in Maharashtra, India [23].

It was felt that Nestlé's unethical behaviour provided concern for the formulation of new rules for the marketing of baby formula across the world. Also, it was observed that Nestlé's reputation was greatly damaged and resulted in the decline of its sales and profits due to the wide campaign against its unethical behaviour.

But perhaps Nestlé's unethical acts were not limited to the aggressive marketing of baby formula. It was stated that there were other issues like using water meant for drinking, food safety, forced labour etc.

### *Exploitation of Water*

It was alleged that Nestlé outbid a rural/semi-urban area in Canada for a continuing water supply when conditions of drought existed. This prompted a social action organisation, viz. the Council of Canadians in Canada, to launch a boycott in 2016 [24].

### *Other Food Safety Issues*

There were other cases of food safety connected to Nestlé. One of them is the possible outburst of *Escherichia coli* O157:H7 in Nestlé's frozen cookie dough from a plant in Danville, Virginia, USA, which resulted in the sickness of 50 persons in 30 provinces and the recalling of 30,000 units of cookie dough by Nestlé [25].

**Maggi Noodles** Nestlé faced another problem of food security in some countries, including India [26], Nepal, Kenya, the United Kingdom, Uganda, Tanzania, Rwanda and South Sudan. In June 2015, Maggi Noodles were banned in some

states in India, like Uttar Pradesh, as their lead and monosodium glutamate content was more than the permissible limits. Nepal also banned Maggi Noodles due to lead levels in excess of permissible limits [27]. The UK launched an investigation to discover the amount of lead content in such products [28]. A supermarket chain withdrew Maggi Noodles in response to a complaint by the Kenyan Consumer Federation, following a ban in India [29]. The Indian court ordered for the testing of lead levels in Maggi Noodles in different laboratories. However, Nestlé destroyed 400 million packets even before the test took place. As of November 2015, no Maggi Noodles could be found in shelves [30].

### ***Other Unethical Issues***

It was stated that in 2015, a self-imposed investigation by Nestlé concluded that Nestlé, along with other multinational companies, used forced labour in their supply chains in fishing industries in Thailand. However, in 2016, the company revealed that it would impose new regulations on its suppliers to avoid forced labour [31].

NGO Mighty Earth-an alleged in 2017 that Nestlé and other chocolate manufacturers used cocoa, which was cultivated in areas that were not meant for farming, like forests in the Ivory Coast and Ghana [32].

Thus, it seems that Nestlé could run its business of making profit even through unethical means and against its mission. Now, we look into other similar cases.

**Mr. Ram** Professor, I feel that the practices of Nestlé were worse than those of our friend, Mr. Naresh. Nestlé's executives were just concentrating on profit at the cost of humans, particularly infants, and forgetting the company's mission.

**Professor** Mr. Ram, you might be right. It is felt from Nestlé executives' business practices were focusing on profit maximisation even at the cost of the lives of infants and financial burden on mothers and their families even in poor developing countries. It was alleged that Nestlé's executives were doing it despite the boycotts organised by various groups and actions of NGOs, WHO and other international organisations, as well as legislation enacted in various countries like India. It was criticised that Nestlé executives' actions were deliberate rather than accidental, and hence they were inhuman and unethical, though they may not be illegal. It was alleged that the management of Nestlé was doing these acts in order to maximise profits and satisfy the shareholders by killing infants and troubling the mothers and their families even in developing countries.

It was also felt that Nestlé's mission was high sounding, but practices were quite contrary. It was viewed that Nestlé executives' acts were worse than Naresh's company's acts of reducing quality in order to reduce input cost.

Nestlé's mission was high sounding and fit for documentation purposes. It was felt that its mission in practice was to maximise and accumulate profits even by exploiting infant lives even in developing countries. It was further viewed that in

practice, Nestlé's executives pushed its mission, 'Good Food and Good Life', to the backseat by concentrating on profit maximisation.

**Mr. Naresh** Professor, thank you for presenting the interesting case of Nestlé as the company deals with food items for infants. It is quite unfortunate to play with the lives of infants.

**Professor** Naresh, you are welcome.

**Mrs. Kiranmayi** Professor, could you please present another case?

**Professor** Yes, Mrs. Kiranmayi. I will explain the case of Dick Smith.

## Dick Smith

Dick Smith Holdings Limited was a company that sold consumer electronics goods, etc. It was set up in 1968 with meagre funds of merely Australian \$610 with the business of installing and servicing [car radios](#). It diversified into wholesale business in order to cater to electronics hobbyists. Dick Smith earned an enormous income due to CB radio boom during the 1970s. It expanded its operations in most of the provinces of Australia [33].

The company moved fast, along with new versions of product ranges, like [Heathkit](#) electronic kits and Beeples [pagers](#), and stocking them during the 1970s–1980s. The company opened a total of 20 operational stations during this period. It was initially located in semi-urban areas and suburban areas. In 1980, Mr. Smith disposed 60% of his stock to Woolworth and the remaining 40% in 1982 for Australian \$25 million [34].

Dick Smith took a new direction of establishing superstores during the 1990s. They were called 'Dick Smith Electronic Powerhouse', based on a department model for its main merchandise and a supermarket style for the rest of its merchandise. The company also included music to its range of portfolio in the 1990s. Some powerhouses had installation services and computer repairs and improvements [35].

The Powerhouse concept took the model of more consumer goods and less electronics in 2002–2003. The company reduced component ranges and stopped stocking general [electronics](#) books. The 27-year-old [Yaesu](#) dealership was closed. In 2017, the company unrooted from its traditional business. It removed many small components and introduced home TVs. It also introduced computer systems and training on wireless network and MP3 players [36]. The stores added small appliances, like fry pans, on the shelves in place of electronic kits, which were moved to small Dick Smith Electronic stores. However, these appliances were also removed in late 2008. The company renovated its brand into Dick Smith Technology by replacing electronics with computers, gaming devices, televisions and Macintosh computers in 2008.

Powerhouse as a separate entity was confirmed by [Michael Luscombe](#), Chief Executive Officer of [Woolworths Limited](#), in March 2009. Some electronics products slowly wiped out leaving the company as a single product in consumer electronics division [37, 38].

The company was sold to Anchorage Capital Partners – an Australian investment company – in September 2012 for the sum of A\$ 20 million [39].

Anchorage floated Dick Smith as a public company in December 2013 and listed it on ASX [40]. Its market capitalisation was valued at A\$ 520 million, though it was acquired for only A\$ 20 million and in less than two years' time [41]. Anchorage sold 80% of the stocks in September 2014 [42].

The share value of Dick Smith declined by 80% between December 2013 and 4 January 2016. Consequently, the company requested for a halt in transactions on 4 January 2016 [43]. Dick Smith Limited collapsed on 5 January 2016 and was handed over for receivership. The company's board employed McGrath Nico, and the main creditors, viz. [National Australia Bank](#) (NAB) and HSBC Bank Australia, hired the representatives of [Ferrier Hodgson](#) as administrators [44]. Consequently, Nick Abboud resigned as CEO. This was followed by a closure of all 363 stores of Dick Smith Electronics on 25 February 2016 as receivers Ferrier Hodgson informed that they could not find buyers, which resulted in the loss of 2460 jobs [45]. However, Kogan.com took over Dick Smith's online business on 15 March 2016 [46].

It was claimed that Dick Smith's creditors placed Dick Smith in bankruptcy on 25 July 2016, and the creditors' loss was expected to be nearly A\$ 260 million [47].

The founder of Dick Smith – though he had not been connected to the company since 1982 – expressed shock as the company was forced to close due to the 'utter greed of modern capitalism'. [48]

**Reasons for the Failure of Dick Smith** Administrator McGrath Nico in his statement indicated the reasons for the failure of the company:

- Inventory procurements were ineffective.
- Expansions were made without detailed analysis, which resulted in increase in cost.
- The company was progressive in sales and strong in growth and expansion before it was listed on stock exchange in December 2013.
- The management focused on revenue and profitability.
- The collapse was fast and escalating. It took just two years for the company to collapse following its public ASX listing.
- The collapse of Dick Smith was at the expense of sustainable growth and business performance [49].

It was viewed that the market capitalisation of Dick Smith was levelled at A\$ 520 million in December 2013, though the company was bought in September 2012 for A\$ 20 million by Anchorage, which sold 80% of the shares in September 2014. This might have led to suspicion that Anchorage might have window dressed the financial statements at the time of the listing with an ulterior motive of making quick money by selling shares whose market value was inflated.

The purpose of the business was to cater to electronics hobbyists (as the founder himself was a keen hobbyist). But Anchorage's mission might have later shifted to making quick money by defrauding the shareholders, creditors, bankers and employees. This might have resulted in losses to the creditors, which amounted to more than A\$ 260 million, according to administrator McGrath Nico. It was claimed that Anchorage was 'greedy', 'dishonest' and 'immoral'.

**Mr. Naresh** Professor, it was quite unfortunate to note the critical unethical point of market capitalisation of A\$ 520 million as against the purchasing price of A\$ 20 million. Further, it was noted that Anchorage used the tactics of window dressing the financial statements in order to artificially inflate the market value of shares and of making money by downloading the shares held by the senior management. This practice resembles the tactics employed by me at the advice of our auditors.

**Mrs. Kiranmayi** Professor, it was good that Mr. Naresh said it. In fact, Dick Smith was killed just in two years. Please tell us another similar case.

**Professor** Mrs. Kiranmayi and all other participants, I am happy for your active participation. Now I will present a different type of case, which is an example of the greed of modern capitalists by exploiting employees.

### ***Schlecker's Drug Store: Exploitation of Labour and the Mission of the Company***

Schlecker drug store was established as a retail drug store in Germany. Mr. Anton Schlecker started his drug store business in Kirchheim unter Teck – a town in Southern Germany – in 1975. He was able to expand his business quite rapidly. He opened 100 stores in two years' time and 1000 stores from 1975 to 1984 in various European countries. The revenue of the store reached seven billion euros by 2007. It was viewed that Schlecker was able to achieve spectacular growth mostly by exploiting employees through underpayment of salaries. Schlecker was leading the drug store product market in Germany from 1994 [50].

It was alleged that stores were managed by a single permanent cashier with the help of one or two part-time employees taking care of all operations like handling cash, customer service, stocking the shelves and the like and that wage rates were miserable. It was asserted that the management exploited the employees brutally with highly abusive working conditions like lack of telephone facilities at the workplace for employees to make a call even during emergencies. There were no telephones in some of the rural stores for some time. Mr. Schlecker permitted union representation at the company and the selection of a work council only in 1996. He recognised the union through an agreement in 2001 only. But his staff could not get out from the then existing system of exploitation. It was believed that these unscrupulous practices helped the company earn huge profits. Consequently, Mr. Anton

Schlecker secured the 26th rank among the richest Germans. The assets of the Schlecker family were estimated at €2.75 billion in 2009 by *Manager Magazine* [51].

It was said that Mr. Schlecker and his wife deceived their employees, telling them that they were paying them as per collective agreement, but in fact they paid quite less. The couple was put on a 10-month probation as they were found guilty by the Stuttgart District Court in 1998 [52]. Furthermore, the court ordered them to pay two million German marks for charitable causes as Schlecker failed to pay the wages of employees as per the collective agreement applicable to the industry [53].

The Cologne Trade Research Institute EHI's research study indicated that Schlecker could not be close to its competitors when it comes to sales per square metre with only €2200 when Rossmann attained €5000 and dm-drogerie markt €6500 [54].

Schlecker, in order to improve its sales per square metre, established XL markets, resulting in the closure of nearby small stores. Some of the employees working in smaller shops were offered jobs in XL shops, wherein the previous wage agreements were not applicable. Added to this, nearly two thirds of them were hired as short-term employees from a particular temporary agency i.e., Meniar (People at Work). These employees were paid only €7 hour rate, the rate applicable in East Germany as temporary agency Meniar was located in Zwickau in East Germany. Mr. Schlecker discontinued the services of temporary agency Meniar in 2010 due to the people's anger over this issue [55].

In 2010, Schlecker signed three joint contracts with trade union Verdi, viz. a social tariff agreement, a job security agreement for the staff of the old Schlecker markets and a joint contract for the new Schlecker XL markets. A decade after signing these agreements, the firm received adverse press statements due to dejected remuneration and employment circumstances. Mr. Achim Neumann of Verdi praised Schlecker, saying that 'Schlecker is somewhat of a pioneer in the industry', despite the fact that the problems at the firm were already pending [52]. Schlecker's personal fortune was estimated at €3 billion, and he was planning to escape from these agreements via an insolvency plan in order to sell the loss-generating stores and fire the employees [56].

This company was put in the limelight again in 2010 for its adverse acts as it installed cameras in stores, spied by using test purchasers and also paid less in violation of the collective wage agreement provisions [57].

It was further alleged that the company made use of the loopholes in law by terminating contracts prematurely and employing the same people as temporary employees. It helped them to cut the wages from 12 to 6.5 euros per hour. This practice, though was legal, damaged the company's reputation severely. It was believed that customers consequently rejected the Schlecker brand. The company invested heavily in marketing to turn around its image, but it did not bear any positive fruit; instead, it resulted in the ruin of the company in January 2012 [58].

Schlecker, the drug store chain, filed bankruptcy at the Ulm District Court on 15 January 2012, which resulted in the loss of 30,000 jobs in Germany and 17,000 jobs in other European countries and the premature termination of contracts with suppliers, landlords and employees. Attempts were made to rescue it from bankruptcy, but

they did not bear fruit. The Schlecker family was charged by the state prosecutor for misappropriating millions of euros, which resulted in the firm's official insolvency on 14 April 2016 [59].

Mr. Anton Schlecker was put on trial, and ultimately Mr. and Mrs. Schlecker were found responsible for the company's bankruptcy [60].

It was viewed that Mr. Anton Schlecker's business strategy helped him to accumulate wealth at the cost of the lives of thousands of employees, as well as of the businesses of its creditors and other stakeholders. However, Schlecker's family later suffered the consequences of his unethical practices.

**Mr. Naresh** Professor, it is interesting to note that executives were responsible in the case of Nestlé. But Mr. Schlecker's case is different as owners were directly responsible, like me. Mr. Anton Schlecker's business model helped him to accumulate his wealth at the cost of the lives of thousands of employees, as well as the business of its suppliers and landlords. However, later Schlecker's family lived in the dark. Mr. Anton Schlecker's business model looks like my model of exploiting employees and suppliers/creditors. It seems that the company's mission in practice is profit maximisation through minimising expenditure by means of even exploiting labour ruthlessly.

**Professor** Yes, Mr. Naresh. Shall I proceed to the next case?

**Mr. Rohan** Professor, sure. You are presenting apt cases.

**Professor** Dear participants, now I deal with the Volkswagen emissions case.

## The Volkswagen Emissions Case

The mission of Volkswagen is 'to build long term strategic partnership with our customers. To assist them in making the right choices for their business needs, by minimising fleet costs and providing world class customer service.' [61]

But in 2015, Volkswagen sold cars by providing false information to buyers saying that it installed software on the cars and that they were more environmentally friendly than they were. According to the company, they systemised computers in their diesel cars, enabling them to detect emission tests. Engines would shift their actions to meet the standards of the law. But on the contrary, the engines actually released emissions 40 times more than the legal limit even in usual driving situations [62]. It was said that the buyers deserted the cars after gaining knowledge of the correct information. It was estimated that the company lost around \$20 million in market capitalisation. The company compensated the customers and paid fines imposed by the regulators. It was felt that this unethical practice stained its reputation, affecting its market share.

**Mr. Rohan** Mr. Naresh, with your permission, I would like to speak.

**Mr. Naresh** Mr. Rohan, you are free to speak and share your views.

**Mr. Rohan** Thank you, Mr. Naresh, for your broad-mindedness. I would like to say that Volkswagen's practices were in contrast to its mission. This example also resembled the practices of your company.

**Professor** Thank you for your participation. Let me proceed to other cases.

## Chevron Corporation

Chevron Corporation is an MNC of the United States. It was placed in the 19th position in the Fortune 500 list, 16th in the Fortune Global 500 list and in the list of Global biggest oil companies in 2017 [63]. Its operations include almost all aspects of oil, natural gas and wind power.

The vision of the company states that it aims to be a world energy corporation respected for its staff, alliances and outcome. It also aims to produce energy for the betterment of human life and the development of world nations [64].

Chevron acquired Texaco in 2000 and occupied the second rank in the list of the largest oil companies in the USA. It was renamed as Chevron Texaco, but the name was reverted to Chevron in 2005. However, Texaco continued as the major brand [65].

Texaco was found involved in discarding billions of gallons of poisonous throw-away and also did a fake action of cleaning up in Ecuador [66]. Ecuadorian indigenous residents filed a lawsuit against Chevron Corporation accusing the latter of causing ill health to the former and damaging forests and rivers by discharging waste water into Amazon rainforests without processing it [67].

Chevron was charged for violating the US Clean Air Act, and it settled the charge in October 2003, which ultimately resulted in the reduction of damaging air releases by nearly 10,000 tons annually [68]. In addition, Chevron faced penalties for violations of the Clean Air Act in 2000 and paid US\$ 1 million relating to its operations in El Segundo, California [69]. Chevron in San Francisco was accused for nitrogen and sulphur oxide emissions in its refineries, and it spent about US\$ 275 million to reduce the emissions by installing innovative technology [70].

Chevron also caused problems of oil spill after dropping crude oil off of the south-eastern coast of Brazil and settled lawsuits for US\$ 230 million in 2001 [71].

It was viewed that Chevron's operations quite exploited the communities by polluting the environment, contrary to its mission and values in favour of employees, customers, partners and the communities where it operated. As a matter of fact, it contributed to polluting the environment and polluting the communities where it operated.

**Mrs. Sukhanya Devi** Professor, it is clear that Chevron wrote an idealistic vision and values but operated on the principle of just profit maximisation even at the cost of important stakeholders like employees, customers, communities and suppliers.

**Professor** Mrs. Devi, you are right. Now I explain the Halliburton case.

## Halliburton

Halliburton established its headquarters both in Houston and Dubai, though it is a multinational company of the USA. It is involved in the business of providing energy services in more than 70 nations, along with a number of subsidiaries, partners and branches [72].

In its mission and vision, Halliburton emphasises on achieving abnormal earnings for its owners with high performance and also high customer satisfaction by following ethics [73].

Mr. Dick Cheney, a former US Vice President, was the Chairman and CEO of Halliburton from 1995 to 2000. He retired from the company during the US Presidential elections in 2000 for a compensation worth US\$ 36 million [74]. It was alleged that the USA Government favoured Halliburton with a business contract of US\$7 billion and to compete using the provision of single bid contract under the law [75]. Investigations were conducted by the US Justice Department, the Federal Bureau of Investigation and Pentagon's Inspector General based on a complaint by [Bunnatine Greenhouse](#), a government employee with 20 years of contract knowledge. However, the investigation report did not find any wrongdoing by Halliburton. [Bunnatine Greenhouse](#) was demoted in the pretext of low performance, as portrayed by Greenhouse's attorney, Michael Kohn [76].

Eventually, Halliburton was found guilty and was charged for the BP oil spills, and its director, Anthony Badalamenti, was charged for removing information relating to dangerous BP oil spills in the Gulf of Mexico in September 2013 [77]. Halliburton paid a penalty of \$200,000 and agreed to a three-year probation. Halliburton was also involved in the emission of chemicals in [Harris County, Texas](#), in 2002. The company also consented to paying \$1.1 billion in damages to resolve most of the issues associated with it.

**Nitin** Professor, can I express my views?

**Professor** Mr. Nitin, sure.

**Mr. Nitin** Professor, thank you. Halliburton's mission was to have returns to shareholders. Its values include the safety of all. But it ignored the safety of the communities in order to maximise the returns to the shareholders. Its other values are integrity and ethics, but its practices were unethical and it paid penalties in compensation. Thus, it concentrated on returns to the shareholders through profits at the cost of the safety of the communities.

**Professor** Mr. Nitin. I agree. Now I deal with the McDonald's case.

## McDonald's

McDonald's was established as a restaurant in the USA in 1940 and grew globally as the biggest restaurant in terms of revenue [78], with more than 69-million customer base through its 36,900 outlets operating in 120 countries [79]. It relocated its global headquarters to Chicago in early 2018 [80]. It is believed that McDonald's is a reflection of globalisation as it operates in various countries and also customises its products according to the preferences of its customers of different cultures and geographical regions.

McDonald's mission is to be the favourite restaurant to eat and drink, providing the best customer satisfaction [81].

McDonald's initially started its operations with hamburgers but expanded to include a number of products like [French fries](#), sandwiches, [wraps](#) and the [McRib](#) sandwich [82].

**Employment, Wages, Benefits and Working Conditions** Careers in McDonald's were characterised as glass-ceiling jobs as they only require low skills with almost no career growth opportunities. In fact, [Merriam-Webster's Collegiate Dictionary](#) in 2003 added a word 'McJob' and described the term as 'a low-paying job that requires little skill and provides little opportunity for advancement', notwithstanding the objections from McDonald's [83].

In April 2007, McDonald's in Perth, Australia, was found guilty of employing child labour and was fined A\$8000 [84].

McDonald's has started automating its operations with electronic kiosks since the 1990s, resulting in the reduction in the number of employees, consequent to employees' demand for higher wages [85]. It was also alleged that McDonald's pays less than the minimum wage to part-time employees in some restaurants and was involved in pay delays [86].

McDonald's management has this view that replacing certain categories of workers with robots is more cost effective than increasing the wages of employees. Former McDonald's CEO Ed Rensi specified that 'It's cheaper to buy a \$35,000 robotic arm than it is to hire an employee whose inefficient making \$15 an hour bagging French fries' [87].

There were complaints regarding the working conditions at McDonald's. McDonald's workers alleged that there were problems like understaffing, poor training, poor working conditions, lack of protective gear, lack of first-aid supplies etc. In fact, McDonald's workers lodged various complaints with the US Occupational Safety and Health Administration in 2015 [88].

## *McDonald's Products and Human Health*

It was said that McDonald's uses beef tallow to cook French fries, which affects consumer health [89]. Various vegetarians of the Hindu and Buddhist religions sued McDonald's for misstating that French fries is vegetarian as it uses beef broth to prepare them [90].

**Balu** Professor, McDonald's mission emphasises on customers and employees. Similarly, its values also centred on both customers and employees. But McDonald's alleged unethical practices were mostly related to exploitation of labour through low wages and poor working conditions and of customers through unhealthy products and providing false information about vegetarian dishes. Of course, I feel that McDonald's practices of exploitation of labour were more severe than those of Naresh's company.

**Professor** Balu, I understand your feelings. It is felt that McDonald's has written an idealistic mission but emphasises on profits and maximising shareholders' wealth at the cost of customers and employees. Now, I deal with WorldCom.

## WorldCom

WorldCom started its journey as Long Distance Discount Services, Inc. (LDDS), in 1983, and it appointed [Bernard Ebbers](#) as its CEO in 1985. WorldCom started trading publicly in 1989 and was named as LDDS WorldCom after its merger with Advantage Companies, Inc. A number of companies were merged with WorldCom during the 1990s. MCI Communications and WorldCom merged in 1998 and formed MCI WorldCom. The [US Department of Justice](#) and the [European Union](#) prevented the merger attempts of MCI WorldCom in October 1999 as this merger would result in monopoly [91].

The mission of the company is to be a profitable company serving as a single source provider of communication services around the globe [92].

WorldCom grew aggressively through the merger strategies of its CEO, Mr. Bernard Ebbers. Mr. Bernard Ebbers was assisted by Finance Officer Mr. [Scott Sullivan](#), Controller Mr. David Myers and Director General of Accounting Mr. Buford Yates in maintaining the market price of WorldCom's stock at a peak level of more than \$64 in 1999. It was alleged that they maintained the share price at peak level by manipulating earnings through fraudulent accounting methods. They may have used fraudulent accounting methods at the direction of then Chief Executive Officer Mr. Bernard Ebbers [93]. But early 2000s saw a decline in the telecommunication industry, and consequently the share prices of WorldCom fell down significantly. Consequently, banks pressured Mr. Bernard to cover margin calls on the WorldCom shares he was holding. Mr. Bernard tried to get more than \$400 million as loan from the company in 2001 but failed. It was said that he resigned from WorldCom in April 2002 after failing to get a loan from the company. Mr. John Sidgmore was appointed as the next CEO.

It was reported that the US Securities and Exchange Commission sent a request to WorldCom concerning accounting measures and loans to employees.

The directors of the board were informed of the fraud after a few internal auditors unearthed a scam of \$3.8 billion in 2002 [94]. It was indicated that the management acted swiftly, and investigations were also initiated by the [US Securities and](#)

**Exchange Commission** (SEC) on 26 June 2002. Mr. Scott Sullivan was sacked, and Mr. David Myers tendered his resignation. It was further discovered that WorldCom's property was exaggerated by nearly \$11 billion during the last days of 2003. Mr. Myers faced 20 years of imprisonment [95].

**Modes of Fraud** It was alleged that fraud was executed systematically by treating interconnection expenses, which were operating expenditure among the rest of the telecommunication companies, as capital expenditure, and revenues were inflated with bogus accounting entries without backup for more than \$9 billion from 'corporate unallocated revenue accounts' [96]. WorldCom filed Chapter 11 insolvency protection on 21 July 2002 [97].

**Intentions of Fraud** It was alleged that the fraud in WorldCom was designed and executed by a team consisting of Chief Finance Officer Mr. Scott Sullivan, Finance Controller Mr. David Myers and Director of General Accounting Mr. Bufford Buddy Yates and headed by its Chief Executive Officer, Mr. Ebbers. The perceived purpose of this fraud was to continuously show more profits in order to artificially inflate the market price of WorldCom's shares. It was viewed that the high market price of the shares helped Mr. Ebbers to drive the company's progress through mergers and also to increase the market value of the stocks held by Mr. Ebbers in WorldCom. In addition, the team members may also hold stocks in WorldCom. Thus, it was believed that a team of selfish and unethical executives tried to maximise their benefits at the cost of the survival of the company and by deceiving the shareholders, creditors and other stakeholders [98].

It was viewed that despite the concrete role of this team of executives in the fraud, they refused to admit their intentions and actions. It was reported that Mr. Ebbers refused to reveal the truth to the US Congress and refused to respond to the questions. It was also reported that former WorldCom Chief Finance Officer Mr. Sullivan also refused to reveal the facts. Consequently, Mr. Sullivan and Finance Controller Mr. David Myers were arrested on 1 August 2002 and were accused of securities deception and of filing wrong reports with the Securities and Exchange Commission. Mr. Sullivan and Mr. Buford Yates – former Director General of Accounting – were indicted on 28 August 2002 by a New York Grand Jury. The management of WorldCom appointed Mr. Michael Capellas as chairman and chief executive officer on 15 November 2002 and changed the name of the company to MCI on 24 April 2003 and appointed Robert Blakely as the chief financial officer. On 2 April 2004, MCI consented to pay \$27 million to the US government to settle the charges for what it over-demanded the government [99].

On 27 August 2003, charges were levelled against WorldCom former Chief Executive Officer Mr. Ebbers and the others by the Oklahoma Attorney General for breaching state securities laws by providing fake evidence to capital providers. The bankruptcy court, on 26 January 2004, appointed Mr. Richard Thornburgh, a former US Attorney General, as a self-governing assessor and also indicated that MCI was allowed to charge former WorldCom CEO Mr. Ebbers, Citigroup and Andrew Andersen for the part they played in the fraud. On 31 October 2003, the bankruptcy

court permitted MCI's restructuring programme to emerge from bankruptcy. Ultimately, after losing its goodwill, MCI came out of bankruptcy, with \$5.7 billion arrears and \$ 6 billion cash. Mr. Sullivan was alleged to be at fault of plotting, scamming and producing wrong reports and subsequently resolved the charges levelled by the Securities and Exchange Commission. He also agreed to a lifetime sentence of working in any public company. It was also reported that on 2 March 2004, Mr. Sullivan agreed to help in the search for Mr. Ebbers, to be initiated by the government [100].

On 3 March 2004, Mr. Ebbers argued that he was innocent and that he was not involved in the \$11-billion fraud involving WorldCom. He also denied his involvement in the \$11-billion scandal during his criminal trial on 28 February 2005. The federal jury of fraud declared on 15 March 2005 that Mr. Ebbers was guilty of fraud and was sentenced to imprisonment for 85 years [101]. Ebbers reported to the Federal Bureau of Prisons at Oakdale on 26 September 2006 to serve the punishment.

In addition to Mr. Bernard Ebbers, Mr. Scott Sullivan, former Chief Finance Officer at WorldCom, was also charged with securities scam, plotting and providing fake reports on 2 March 2004 [102]. Subsequently, Mr. David Myers pleaded guilty on 27 September 2002 [103]. Meanwhile, former WorldCom Director of General Accounting Mr. Buford Yates pleaded guilty on 7 October 2002 [104], and Mr. Betty and Mr. Troy Normad pleaded guilty on 10 October 2002 [105].

Sixteen of 17 previous underwriters at WorldCom entered into agreements with the investors [106, 107]. Citigroup, on the other hand, agreed to a \$2.65-billion settlement on May 10, 2004 [108, 109].

### ***Losses to WorldCom***

Losses to WorldCom involved the following:

- WorldCom paid \$2.25 billion to the Securities and Exchange Commission as civil penalty in 2003 [110].
- WorldCom paid \$750 million to the Securities and Exchange Commission in cash and in the form of stocks in the new MCI for doing wrong deeds to its investors.
- WorldCom ended up with almost \$5.7 billion in debt when it filed bankruptcy.
- It had cash of \$6 billion, but half of it was intended to pay the various claims for settlements.
- It had written down almost \$80 billion of intangible assets in 2003.
- It settled charges with the Securities and Exchange Commission for its accounting irregularities on 19 May 2013.

It was alleged that a team of senior management, including the Chief Executive Officer, deceived the company and its stakeholders. The mission statement of WorldCom concentrates on providing profitable services to customers, but its executives concentrated on maximising their personal wealth. WorldCom wrote high-

sounding mission statements, but it was felt that the executives who were expected to take on the activities to achieve its mission misused their authorities and maximised their personal wealth.

**Mr. Mukund** Professor, I feel that WorldCom's unethical practices were similar to Mr. Naresh's company's practices of artificially inflating the market value of stocks. But in the case of WorldCom, the executives implemented unethical measures, whereas the owner was responsible for unethical practices in the case of Naresh's company. Further, WorldCom's case resembles the unethical practices of Enron.

**Professor** Mr. Mukund, you are right. Executives were responsible in the case of WorldCom, similar to Enron. Now I deal with Lehman Brothers Holding Inc.

### ***Lehman Brothers Holdings Inc.***

Henry Lehman and his brothers, Emanuel and Mayer, established Lehman Brothers as a tiny store in Alabama in 1850. It progressed along with the US economy and diversified into several businesses from 1850 to 2008. It became an international service company and the fourth biggest investment bank in the USA by 2008 [111]. It could survive in a number of adverse conditions.

The Lehman Brothers Holdings Inc.'s mission statement is 'We are one firm, defined by our unwavering commitment to our clients, our shareholders, and each other. Our mission is to build unrivalled partnerships with and value for our clients, through the knowledge, creativity, and dedication of our people, leading to superior returns to our shareholders.' [112]

A few Wall Street firms moved into the business of [mortgage](#) in the late 1990s, and Lehman Brothers was one of them. It bought Aurora Loan Services and BNC Mortgage in West Coast in 2000. It closed BNC Mortgage in August 2007 due to losses [113]. Ultimately, Lehman Brothers could not sustain itself due to the fall down of the US housing market. Though it proved to be highly rewarding in the short run, it finally led to its collapse. Consequently, Lehman Brothers filed for insolvency on 15 September 2008 with property worth \$639 billion and liabilities worth \$619 million [114].

It appears that the ruin of Lehman Brothers was not a sudden event. It was alleged that Lehman managers and auditors, viz. Ernst & Young, played their roles in the scandal. It was viewed that the scandal was carried out by selling uneconomical property to foreign banks with a promise to acquire them back later [115].

In 2003, the company had a settlement known as global settlement with the US Securities and Exchange Commission consequent to its influence over research analysts and its improper association of analyst compensation with investment banking revenues. This settlement was to the tune of \$80-million financial penalties and structural reforms. These structural reforms included the separation of investment banking from the research department and the delinking of analysts' compensation from investment banking revenues [116].

It was stated that despite the adverse business conditions in Lehman Brothers, Mr. Richard Fuld of Lehman Brothers earned nearly \$300 million in salary and bonus in 2000 and 2008. He was questioned by the US House of Representatives' Committee on Oversight and Government Reform [117]. In addition, it was stated that the salary of the executives of Lehman Brothers was increased significantly before bankruptcy [118].

**Accounting Manipulations** It was revealed that Lehman Brothers engaged in a trivial company, viz. Hudson Castle, and moved its dealings and properties fraudulently to that company [119]. The Bankruptcy Examiner's report indicated that Lehman Brothers used Repo 105 transactions to boost the financial conditions [120]. The Attorney General of New York filed charges in December 2010 against Ernest & Young bank's auditors [121].

**Mr. Gopal** Professor, I feel that the Lehman Brothers case also indicates that the activities of the executives didn't contribute to the achievement of the company's mission as the activities were unethical and contrary to its mission, like the Enron case.

**Professor** Gopal, you are right.

**Mr. Naresh** Professor, in addition to what Gopal said, I feel that auditors colluded in the Lehman Brothers scandal. Auditors who were expected to support the company and the management in achieving the mission acted otherwise in the case of Lehman Brothers by creating accounting scandals.

**Professor** In addition to what you both said, accounting scandals can't be carried out by the company without silent or clear support from its auditors. Now I explain accounting scandals. In fact, it is also viewed that executives of audit firms also failed to perform the activities assigned by the missions of their respective firms. Let us discuss some of such examples.

## Accounting Scandals

Accounting scandals are quite common in most of the business scandals. The management of failed businesses wish to window dress the financial results of the company when its business performance dwindles and/or the executives' interest gets entangled with the interest of the business and, thereby, the market price of stocks.

Accounting scandals are also referred to as window dressing of accounts or 'creative accounting'. Accounting scandals involve a combination of methods like mis-directing funds, fraudulent financial reporting like overstating revenue and/or assets, making entries of revenue without the backup of proper documentation/invoices, and understating/underreporting or avoiding making some entries of expenses and/

or liabilities. These scandals are normally executed by an employee or a group of employees with or without the direction and/or support of the management normally for the benefit of parties other than the shareholders and the government, including regulatory bodies.

The types of financial fraud include, but are not limited to, stealing, fraud in bank loan approvals, increase in salary and benefits/perks of employees and executives, manipulating accounts to meet shareholders' expectations/benchmarks, artificially increasing the market price of stocks with several ulterior motives like attracting new investments/subscriptions to the equity issues, selling the stocks held by executives at a higher price, securing better ranking and the like.

Opportunities for financial fraud at lower levels of organisation are more common in companies where cash is involved in transactions. The approach of top and middle management towards an optimistic financial performance of the company motivates the accounting staff to attempt to do and execute fraudulent accounting practices. Similarly, the management's fraudulent business practices motivate the accounting staff to attempt to commit accounting fraud. Unethical behaviours like adverse attitudes and values and exclusively outcome-based management and leadership motivate and force the staff to execute accounting fraud [122].

The absence of financial transparency is the basic source of financial fraud, as well as a mode of hiding fraud. Thus, the lack of financial transparency is a weakness on the financial system of companies. Top management's intention of earning illegal money results in the weakening of the system of financial transparency. They take advantage of this lack of financial transparency as an opportunity to fabricate and hide financial fraud. The top management in some companies allows financial non-transparency for their advantage. It can reduce and/or inflate the market price of the stock by treating this weakness as an advantage. This action helps the top management to buy and/or sell company stocks for their end, to help the 'take-over artists' and get kickbacks or to take on the role of 'indirect take-over-artist' to gain windfalls. In addition to top management, middle-level and lower level management also resorts to unethical means as and when they are attracted by short-run windfalls. In fact, managers interested in short-term gains or those who give more weight to personal interests/goals over organisational goals at all levels team up/ conspire and fabricate and/or hide a fraud. In fact, executives of audit firms also collude with the management in fabricating and/or hiding and/or covering up a fraud for their personal and short-term gains. Financial frauds are hidden for a relatively long period of time when audit firms do also collude with the unethical managers.

The following are some of the examples of audit firms' alleged involvement in financial fraud:

- **National Student Marketing Corporation** of the United States, with the assistance of its audit firm Peat, Marwick, Mitchell & Company, was alleged to have overstated its earnings in 1970 [123].

- Audit firm Arthur Andersen in the USA was reported to be responsible for the hyperbole of income of Four Seasons Nursing Centers Company of the USA in 1970 [124].
- Arthur Andersen [124] was said to have extended its helping hand to Fund of Funds – [Investors Overseas Services](#) of Canada in inflating the value of its assets in 1973.
- Audit firm Deloitte & Touche [125, 126] and its client company in Canada, [Livent](#), were claimed to be involved in fraud and forgery from 1989 to 1998.
- [Ernst & Young](#) in Canada was reported to have assisted its client company [Cinar](#) in the misuse of corporate funds in 1998 [127].
- Waste Management, Inc., in the USA was said to be involved in financial misstatements with the cooperation of its audit firm [Arthur Andersen](#) [128] in 1996.
- PricewaterhouseCoopers in the USA was alleged to have taken part in [Freddie Mac](#)'s efforts in understating earnings in 2002 [129].
- PricewaterhouseCoopers was further claimed to have also assisted K-Mart in the USA in misleading accounting practices in the same year [130].
- PricewaterhouseCoopers was also alleged to have helped another client company, [Sunbeam](#) of the USA, in overstating sales in 2002 [131].
- The Enron scandal was reportedly the result of the biggest audit failure and also served as evidence for the deep involvement of auditors, viz. [Arthur Andersen](#), in the financial scandal, consequently resulting in unrecoverable damages to its reputation as one of the major international audit firms and in the loss of its business operation. [Arthur Andersen](#) used the loopholes of the General Accepted Accounting Principles (GAAP) to create the Enron scandal. Enron discontinued the services of [Arthur Andersen](#) on 17 January 2002 as it failed in providing advice in finance and related areas. [Arthur Andersen](#) was also found at fault for removing emails and documents concerning Enron [132].
- [Arthur Andersen](#) was reported to have colluded with its client company [WorldCom](#) in the USA in overstating cash flows in 2002 [133].
- [Grant Thornton SpA](#) in Italy was alleged to have assisted its client company [Parmalat](#) in falsifying accounting documents in 2003 [134].
- PricewaterhouseCoopers in the USA, along with its client [AIG](#), was claimed to be involved in the accounting of structured financial deals in 2004 [135].
- [Friedling & Horowitz](#) was said to have colluded with its client [Bernard L. Madoff Investment Securities LLC](#) in the massive Ponzi scheme in 2008 [136].
- It was criticised that Ernst & Young in Ireland helped its client Anglo Irish Bank in concealing borrowings in 2008 [137].
- PricewaterhouseCoopers in India was said to be responsible for the Satyam Computer Services scam by falsifying accounts, along with its Chief Executive Officer, Mr. Ramalinga Raju, in 2009 [138].
- It was alleged that auditors Deloitte in the United States of America helped its client company Monsanto in following inappropriate accounting practices during 2009 to 2011 [139].
- [Kinross Gold](#) and its auditors in [KPMG](#) in Canada were said to be responsible for overstating asset values in 2011 [140].

- [Ernst & Young](#) was said to be responsible for the failure of client company [Lehman Brothers](#) of the USA to reveal [Repo 105](#) transactions to its investors in 2010 [141].
- [KPMG](#) in Canada was claimed to have played a role in allowing its client [Penn West Exploration](#) to overstate profits from 2012 to 2014 [142].
- [Ernst & Young](#) in Japan was said to have helped its client company Toshiba to overstate profits in 2015 [143].
- [PricewaterhouseCoopers](#) in Canada was reported to have enabled its client company [Valeant Pharmaceuticals](#) to overstate revenues in 2015 [144].
- [Ernst & Young](#), [Deloitte](#) and [KPMG](#) in Malaysia were claimed to have enabled their client [Malaysia Development Berhad](#) to be involved in a scam, money swapping, the misuse of political power and corrupting the government in 2018 [145].

**Mr. Naresh** Professor, could you please explain the purpose for which the audit firms are established, even though the meaning of the term audit itself indicates the true purpose of audit firms?

**Professor** Dear participants, Mr. Naresh asked a wonderful question. I will answer his question. But I will deal with some specific audit firms. Some of the prominent audit firms that were involved in scandals listed above include [Deloitte & Touche](#), [Ernst & Young](#), [Arthur Andersen](#), [KPMG](#) and [PricewaterhouseCoopers](#). Now I present the mission statements of these audit firms.

### *[Deloitte & Touche](#)*

The summary of the vision statement and mission statement of [Deloitte & Touche](#) is ‘to be standard and excellent professional service above the levels of clients’ demand’ [146].

It was alleged that [Deloitte & Touche](#) was involved in unethical acts, like cooperating with its client companies in, for example, inflating promotional allowances and offering ill advice with regard to corporate bonuses [147]. Indeed, it was viewed that [Deloitte & Touche](#) practised acts against its mission and values in these cases. The intention of [Deloitte & Touche](#) might have been to maximise its revenue rather than maintain professional integrity.

### *[Ernst & Young](#)*

The motto and mission statement of [Ernst & Young](#) is about building a better working world with a difference for stakeholders [148].

Though Ernest & Young's motto is to build a better working world with a difference for stakeholders and its mission is to drive progress, it was alleged that the firm assisted its client companies in misusing corporate funds, inflating sales figures and being involved in fraud, money laundering etc. [149] It was also reported that Ernest & Young played a role in Lehman Brothers' failure. Its mission and practices turned out to be different due to the emphasis on earnings rather than following professional ethics and its mission.

## ***KPMG***

KPMG's motto and mission statement emphasise on giving value to clients and finance markets by using knowledge [150].

It was reported that KPMG was involved in falsifying financial statements, overstating assets and liabilities and overstating the profits of its client companies [151]. Perhaps these acts were not the result of using knowledge to give value to the firm's clients. It was viewed as quite opposite to the mission of KPMG. Thus, it is believed that KPMG is also sometimes involved in unethical practices against its mission, mostly for adding to its revenue and/or the revenue of its employees.

## ***PricewaterhouseCoopers***

PricewaterhouseCoopers' purpose, vision and values focuses on providing quality service with trust and integrity in the digital era [152].

As reported, PricewaterhouseCoopers assisted its clients in understating earnings, improper accounting, inflating revenue, improper booking of sales and recording payments that were not collected [153]. **PricewaterhouseCoopers**'s mission is to provide quality service with trust and integrity in the digital era, but it seems that some of its practices were quite contrary to its mission, as well as to the interest of its clients. PricewaterhouseCoopers values integrity and speaks what is right. But it is felt that the firm did not follow its values in auditing the accounts of some of its clients, as well as in advising them, even though its actions affected its reputation adversely. Some of the staff of **PricewaterhouseCoopers** might have indulged in unethical acts by colluding with clients, which might have been for personal gains.

It is felt that even audit firms acted against their missions as well as the missions of their clients, and it appears that some of their actions were geared towards maximising their revenue and/or the personal goals of their staff.

This approach of maximising the personal goals of audit firms' staff might have allowed their client companies' management also to maximise their personal goals at the cost of disregarding the mission of audit firms and client companies.

**Mr. Nitin** Professor, you have presented appropriate information. Shall I summarise them?

**Professor** Mr. Nitin, go ahead.

**Mr. Nitin** The cases Professor mentioned indicate that the management of companies, including audit firms, sometimes practised activities quite opposite from those assigned to them by the missions of respective companies. This might be due to several factors, including the self-mission of executives over organisational mission and impression tactics used by executives to maximise revenue even by cheating the customers and other stakeholders. Management, thus, sometimes might have performed actions that were not entrusted to them by their respective missions. Am I right?

**Professor** Mr. Nitin, absolutely. Good job!

**Mr. Mukund** Professor, could you please interrelate what *Dharmatman* in Bhagavad Gita indicated and these cases?

**Professor** Mr. Mukund, thank you for reminding me. I will do it now.

### ***Dharmatman Lord Sri Krishna***

Lord Sri Krishna mentioned about performing actions that were assigned while preaching Bhagavad Gita to Arjuna. I quote some of the important Verses from Bhagavad Gita that deals with this aspect.

The Supreme Lord in Verse 19 of Chapter 3 said: ‘Therefore, go on efficiently doing your duty at all times without attachment. Doing work without attachment man attains the Supreme.’ And in Verse 20 of Chapter 3, the Dharmatman said: ‘It is through action without attachment alone that Janaka and otherwise men attained perfection. Having in view the maintenance of the world order too, you should take to action.’ Lord, thus clarified that performing prescribed duties without attachment helps to attain perfection. This will help in educating the common people as the common people follow the wise men.

Lord Sri Krishna indicates the need for and the importance of performing prescribed duties. Lord also indicates that the people who perform prescribed duties become a role model to other people as the common people follow the wise men. *Dharmatman* specifically mentioned that *King Janaka* attained perfection by performing prescribed duties. Lord clearly indicated that one should not perform non-prescribed duties. If a leader performs non-prescribed duties, his/her followers will also perform non-prescribed duties. Those who perform non-prescribed duties cannot attain perfection. Therefore, a leader who performs non-prescribed duties can-

not attain perfection and also becomes a cause for the non-attainment of perfection by his/her followers.

The mission of companies provide a direction to the shareholders and management. Though the objective of the businesses is either profit maximisation or wealth maximisation of the shareholders, the achievement of such objective would be within the scope of the mission of the business firm concerned. Therefore, the executives who are supposed to achieve the objective are expected to achieve such objective within the direction provided by the mission of the business firm concerned.

Nestlé's mission is 'Good Food, Good Life', but as reports indicated, its unethical acts were not limited to the aggressive marketing of baby formula. There were other issues like using water meant for drinking, food safety and forced labour. The executives of Nestlé were expected to earn profit for the shareholders by serving customers with quality and safe products. In other words, the prescribed duties of the executives, among others, include providing good food to the consumers. Nestlé's executives marketed the use of milk for newborn babies, which encouraged mothers across the world to resort to bottle feeding, which was viewed as misleading and harmful and also violating international standards, which was contrary to their prescribed duties. Though the business executives of Nestlé might have succeeded in achieving the objective of profit earning/maximisation, they failed to attain perfection as they resorted to unethical acts.

Though the executives of Nestlé earned profits for the company, they might have failed to perform their prescribed duties and also failed to lead the follower executives of their company as well as other companies. Thus, the executives of Nestlé appeared to have failed to attain perfection.

*Dharmatman* Lord Sri Krishna also indicated in Verse 21 of Chapter 3 of Bhagavad Gita: 'For whatever a great man does, that very thing other men also do; whatever standards he sets up, the generality of men follow the same.' Since Nestlé is a huge company, the acts of Nestlé's executives and the standards set by them in serving the shareholders based on the principle of traditional economics, i.e. profit maximisation/maximisation of shareholders' wealth, could be followed by others. In fact, the principle of traditional economics does not suggest the maximisation of profits or wealth by indulging in unethical practices. Indeed, the principle of modern economics suggests 'sustainable development' as the goal of firms. But Nestlé's executives perhaps failed to understand the principle in its entirety and might have neglected the directions of the mission, vision and values of the company. Executives of other companies might consider the executives of Nestlé as role models and follow the unethical acts committed by them.

It seems that Volkswagen's executives provided the wrong information to its customers, even though the prescribed activity by its mission statement was to build long-term strategic partnership with customers. Chevron's executives probably operated on the principle of profit maximisation even at the cost of important stakeholders, like employees, customers, communities and suppliers. Halliburton might have ignored the safety of the communities in order to maximise the returns of the shareholders, even though its mission emphasised on the safety of all. It is alleged

that McDonald's has written an idealistic mission but focused on profits and maximising shareholders' wealth at the cost of its customers and employees. The team of senior management of WorldCom, including its chief executive officer, who was supposed to protect the entire company, including its stakeholders, seems to have deceived the company as well as its stakeholders. The mission statement of WorldCom concentrates on providing profitable services to customers, but its executives seem to have concentrated on maximising their personal wealth.

The executives of Volkswagen, Chevron Corporation, Halliburton, McDonald's, WorldCom and Lehman Brothers also appear to have not performed the duties prescribed by their respective missions. Instead, they might have performed activities that contributed to the maximisation of the shareholders' wealth exclusively. Thus, it is viewed that the executives of Volkswagen, Chevron Corporation, Halliburton, McDonald's, WorldCom and Lehman Brothers also failed to attain perfection like those of Nestlé. The negative standards set by these big companies could be easily followed by other companies, instead of performing ethical acts. Thus, the *Dharmatman* has clearly indicated that huge/big companies should perform prescribed activities. Here, the prescribed activities are those prescribed by the mission of the companies, that is, for the well-being of all stakeholders. It is therefore felt that the executives of small companies should not consider unethical executives of big companies as their role models since they failed to attain perfection.

In fact, in the case of Dick Smith, Anchorage might have used the tactics of window dressing financial statements in order to artificially inflate the market value of shares and making money by downloading the shares held by the senior management, which was not their prescribed duty. This might be viewed as cheating the investors. This practice resembles the tactics employed by Mr. Naresh at the advice of his auditors.

Schlecker's drug store business model might have helped Mr. Anton Schlecker to accumulate wealth at the cost of the lives of thousands of employees, as well as the businesses of its suppliers and landlords. However, the Schlecker family later lived in the dark. Mr. Anton might have suffered the consequences of performing non-prescribed activities.

Auditors might have played a corroborated role in the Lehman Brothers scandal. Auditors who were expected to support the company and management in achieving the mission of the company may, in the case of Lehman Brothers, have acted otherwise by creating accounting scandals. In fact, it is viewed that accounting scandals cannot be carried out by the company's executives without silent or clear support from its auditors.

Audit firm [Deloitte & Touche](#) appears to have been involved in unethical acts, like collaborating with client companies to inflate promotional allowances and offering ill advice with regard to corporate bonuses. Deloitte & Touche might have practised against the prescribed activities of its mission and values. KPMG, another audit firm, appears to have also performed activities quite opposite to the prescribed activities by its mission.

The practices of another audit firm, [PricewaterhouseCoopers](#), were viewed as quite contrary to its mission as well as the interest of its clients. The staff of

**PricewaterhouseCoopers** might have indulged in unethical acts by colluding with its clients.

**Mr. Naresh** Professor, it was viewed that even audit firms acted against prescribed activities by their respective missions, as well as the missions of their clients.

**Professor** Mr. Naresh, you are right. This approach of maximising personal goals of audit firms' staff perhaps allowed their client companies' management also to maximise their personal goals at the cost of achieving the missions of audit firms and also of client companies.

**Mr. Suresh** It was viewed that large and multinational companies acted against their respective prescribed activities, which were supported by the auditors. These acts might have encouraged various other large companies as well as small companies to perform unethical practices. Similarly, the international audit firms perhaps encouraged their clients to perform activities against their companies' missions. It might have provided an opportunity for a number of small audit firms to support their clients to perform activities against their respective missions.

**Professor** Dear participants, the missions of companies are crafted based on ethical principles, but practices perhaps are deviated to meet the personal goals of the management and/or staff. Thus, the failure to perform assigned activities probably led to unethical practices. It is strongly felt that these unethical practices, though they helped in the short run to achieve the personal goals of the management and staff, led to the failure of companies to achieve their mission and/or to the closure of the companies. Thus, failure to perform assigned activities most probably results in loss to various stakeholders, especially shareholders, creditors, employees and the economy in general.

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## Chapter 5

# Dualism in Human Capital Formation



**Professor:** Dear participants, good morning to you all!

We had quite interesting discussions on various aspects of business ethics based on cases of your own organisations in the previous sessions as well as cases like Satyam Computers Limited, Enron and Nestlé. We will focus our discussion based on sector from today onwards. Today, we shall discuss ethics in the education sector.

### Higher Educational Institutions

Education was regarded as a public good/public utility when governments, trusts, charitable societies and the like used to run educational institutions on purely service principles before globalisation. Liberalisation, privatisation and globalisation across the world during the 1980s and 1990s changed the concept of education from a public good/utility to partially commercial good as governments started shifting the responsibility of financing education from their shoulders to private investors. This shift provided an opportunity for the private investors to add a new portfolio to their existing portfolios. In fact, most of the business people treat any portfolio just as a business. It is viewed that business people invest their resources even in the education sector with an ultimate goal of profit maximisation/wealth maximisation. Education is not an exception to this view though; it may vary in degree of proportion of service and profit. It is felt that opening up of the education sector to private business would invariably result in more or less similar consequences of private investment in business sector in terms of unethical practices. Thus, the scope of cor-

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Note: Meanings of verses of Bhagavad Gita are taken from Srimad Bhagavadgita, published by Gita Press Gorakhpur India, 2019, with permission from the publisher.

ruption is enhanced in higher education sector due to conversion of the education sector particularly higher education sector from public utility to business sector.

Demand for higher education has been on increasing trend since the 1980s as university degree is recognised as a minimum qualification for middle-level and higher levels of organisational hierarchies. In addition, careers in accounting and finance, medicine, engineering, information and communication technology, business management and law have become more lucrative professions. Increased demand for these programmes, inability of public universities to expand due to budgetary constraints and favourable political environment for the private sector enabled private investors to start private colleges and private universities primarily to make money.

In addition, public universities were also encouraged by governments to earn money through various strategies as budgetary allocations for colleges and universities were either reduced or sealed along with increase in expenditure.

Against this background, now we shall take up a case study from Nitin's organisation as he represents the education sector.

**Professor:** Mr. Nitin, we welcome you to share your experiences.

**Mr. Nitin:** Professor and my dear co-participants in this executive development programme, good morning to you all.

**All Participants:** Thank you Nitin and good morning.

**Mr. Nitin: For me Profit First, All Others Come Later...**

My father was 'innocent, sensitive, straightforward and simple and practises whatever he speaks'. He never used to think in depth and too critically.

He was from a relatively big village and got educated in nearby city as my grandfather was rich and he could study well. But most of the villagers who could study better than my father in high school couldn't continue their studies due to financial constraints.

He used to see that the bright children were forced to take up agriculture as they either failed to get proper education in the villages or were unable to go to better schools in the urban areas due to financial constraints.

My father started a private high school in our village with the best infrastructure and dedicated teachers by offering higher salaries to staff and started providing the best education at the affordable fee to the village students. He crafted and wrote his mission as 'to provide the best education at affordable fee'. The school became popular in the province, and demand for admissions increased by threefold within 5 years. He started additional sections. He didn't emphasise on profits. His concern was to provide the best education at affordable price and he continued it. But he never incurred losses or earned abnormal profits, which he never thought of.

He undertook vertical integration by starting a private junior college, a private degree college and ultimately a private university. He became very much popular for providing high-quality education at affordable fee. Teachers and professors never

complain about the salary or any other amenities as my father used to provide more than the government norms.

Other managements of private universities and associations of private educational institutes used to ask him 'are you doing service or business'? His reply was straight, businesses. Then their question was 'why do you charge low fee to students and pay higher salaries to staff'? His answer was 'my mission is my business' and he had been earning reasonable profits. However, they were not happy with his straight answers.

His students were successful in getting jobs in the central services, state services, private services and also foreign services.

One day, some of the old students invited him and our staff members to grace the old students' meetup. To his surprise, there were thousands of old students along with our bankers at the venue.

They invited him onto the dais along with important officers of our educational institutions. Students started delivering their speeches. Everyone appreciated my father's contributions to higher education and quoted our organisation as 'public-cum-private'. Initially, he couldn't understand what does 'public-cum-private' mean. He understood based on the details presented by the speaker. The speaker said our institutions were like private in terms of quality, standards, relevance to the needs of the employer, etc. and public in terms of charging affordable fee to students and competitive salaries and benefits to staff. Ultimately, they concluded that our organisations were running on more than service organisation principles like a social/not-for-profit organisations.

In fact, the speeches made him to recollect the question asked by his co-members of the Association of Private Educational Institutions. Even then, he strongly thought that he was achieving his mission.

Then the last speaker announced that our educational institutions will triple the capacity in the next 4 years in order to cater to the growing needs of rural aspirants for the best education at affordable fee. My father was surprised to listen to this statement as he never dreamt to increase the capacity at that point of time as he didn't have any kind of resources. He thought it was an emotional speech. But the next moment shocked him as one after another announced their donations to our educational institutions for expanding the capacity.

The banker was silently receiving the cheques and issuing the receipts. It seemed to him as a preplan between the banker and the old students. Ultimately, the banker announced the total amount of cheques which was more than nearly double of our current total investment. They finally requested my father to enlarge the capacity within 4 years and cater to the growing needs of rural people for high-quality education at affordable fee.

He couldn't and didn't say anything except appreciating their efforts and repaying back to their alma mater for the cause of achieving his (now our) 'Mission'.

He worked with a great zeal and augmented the capacity by triple within 4 years from the high school level to the university level. Added to this, ultramodern laboratories, computer laboratories, online laboratories, online library, state-of-the-art classroom and other infrastructure and student welfare amenities were provided.

Existing faculty's commitment had been enhanced through increase in pay and new and committed faculty members were added.

Then our institutions reached top national standards with affordable fee targeting rural students. It reached national benchmarks in terms of quality, standards, relevance and employable skills.

Our educational institutions were the best in the country in the combined matrix of fee and quality education. Students and graduates were happy and we were receiving excellent feedback. Staff turnover was dismal and satisfaction and commitment levels were very high. Prospective employers of students preferred to visit our campus as a first choice for campus placements. Other stakeholders like the Department of Higher Education, etc. never complained for any kind of lacuna in the corporate governance issues.

He used to perform his activities perfectly without looking for results. He used to repeat that his mission was his business, i.e. 'to provide the best education at affordable fee'. The fruits of his efforts were conversion of rural youth as one of the best human capitals in the country. He never looked at profit as a business principle. But they derived automatically. For that matter, he never incurred loss and never experienced cash crunch and never went around banks for working capital requirements. He concentrated on his mission; it brought students, committed staff and placements to students (market for the output), additional capital and operational surplus (reasonable profits).

My father was about 75 years old and thinking of retiring from his active life. More or less at the same time, I returned from the USA after working and obtaining my Masters and Ph.D. degrees from US Universities. I scanned all aspects of our institutes including the university. I discussed the issues with my father, staff and students. I also visited other private educational institutes. I also attended one of the meetings of Private Universities Association and interacted with some of the chairpersons of private universities.

One day, I told my father seriously, 'Daddy, you are old enough and you need rest. Maybe you should better retire and I will take care of all the institutions'. He couldn't say either 'yes' or 'no'. I took my father's silence as 'Yes' and he retired. I took over the management and my father started observing what I would be doing.

He was getting shock after shock since I took charge of the educational institutions. I always speak business and management terminology like performance, productivity, cash flow, funds flow, profit first, opportunity cost of funds, net worth, net present value, internal rate of return, earnings before interest, depreciation, tax, strategies, marketing, etc. He used to learn these concepts from my son who was doing his MBA at that time.

I was also turning the institutes 90° as all private educational institutions in the country were earning bumper profits as there was heavy demand for education. This concept of 'turning 90°' was turning from sustainable profits to profit maximisation, in other words, turning partially service organisations into mostly profit-making organisations.

I increased the student fee by tenfold more or less equal to the fee of top-fee charging private educational institutes in the country. Now the less intelligent urban

rich, who couldn't get admissions in other top institutions, started joining our institutes. I increased the income of our institutions by more or less eight times within just 5 years of my tenure as the Chief Executive Officer. I brought down the expenditure by 30% by reducing the faculty salaries, replacing senior faculty who were drawing higher salaries by hiring young and inexperienced faculty for low salaries and cutting on water, electricity and other consumables. I cut the library budget, staff conference participation, research budgets, staff performance incentives in terms of special increment for publications in the top journals, etc. which I felt necessary to enhance profitability.

**Mr. Balu:** Nitin, my understanding is that education can't be run on pure and traditional business principles. Am I right?

**Nitin:** Mr. Balu, I was of the different view. For me, business is business whether it is in the manufacturing sector or trading sector or education sector or health sector. But now, I am confused after attending this programme and after listening to our professor. Let me complete my case. I will be in better position to answer your question at the end of this session. Please bear with me.

**Mr. Balu:** Sorry for my premature intervention. Please proceed.

**Mr. Nitin:** It is alright. I proceed.

More or less by that time, all senior faculty members left all the institutions. But my father witnessed young, inexperienced and less committed faculty in all our institutions. My father also felt that our institutions lost the leadership brand and acquired followership brand and scored almost the low bracket scores in terms of 'students and parents preferred institutions'.

I presented a balance sheet, income-expenditure statement and real worth of all institutions to my father. I also included the assets created with the funds donated by old students in the total assets, as well as in calculation of real worth and net profitability as they belong to our institutions. My father felt it was unreasonable. I also presented a profitability rate of 35% to my father.

I thought that my father would appreciate me, but he sarcastically said, 'my son, wonderful achievement in terms of just money'. He asked me what about our mission of 'to provide the best education at affordable fee'. My son is sitting close to my father and intimately observing his facial expressions. My son said, 'Dad's mission was just profits'.

Then my father asked me, 'what about the quality of education'?

He also asked me, 'do we formulate goals and strategies based on mission' or craft strategies first and formulate goals later and lastly the mission?

I and my son, both at the same time, replied, "goals and strategies should derive from the mission."

My son sarcastically said to my father as "grandfather, dad is doing reverse management'. Then my son also told what I did is reverse management, i.e. strategies

first and goals later and ultimately mission is what we practice. In fact, my son burlesqued me.

Then he asked me, ‘why did you do differently’?

I said, ‘I did the way the other companies do today and also what my professors taught me’.

Then my father told me, ‘**For you profit is first even at the cost of humanitarian cause**’. He further added that ‘Normally education helps for human capital development, but you are deriving capital from humans at the cost of quality of education’. My father’s word created a brain storm within myself.

Then I asked myself, ‘what about the quality of the education? Do we also change it as per the goal of profit maximisation? Which is the fundamental and which is the derivative? Mission should be the fundamental and the goal and strategies should be derivatives.

My father told me, ‘you are sacrificing the cause of human resource development and humanitarian cause. What about ethics, corporate governance and sustainability in the long run’?

I replied with low pitch of voice that ‘profit maximisation is fundamental to business and most of the private educational institutions have been doing the same. They are not considering quality in human resource development and hence, I opted the same strategy.’

Now, I request our professor to clarify.

**Professor:** Mr. Nitin, thank you for sharing your experiences in your institutions. Against this background, we now examine strategies and practices of some of the private educational institutions in India as well as in other countries. I will also answer your question.

## Globalisation and Privatisation

Almost all of the countries deregulated and globalised their economies during the late 1980s and early 1990s and shifted from communistic/socialistic pattern to capitalistic economies. Governments across the world had been unable to bear the burden of providing public utilities at low cost. This in turn led to allowing and enabling private investment even in the areas of so-called public utilities like health, education, roads, telecommunication, power and the like. In fact, philanthropists have been providing education facilities in various countries purely on service basis since times immemorial. Governments in various countries allowed private investment in the education sector for profit basis also since the early 2000. Private investors’ goal mostly is profit maximisation, irrespective of type of business, whether it is manufacturing or trading or education or health. They apply business principles to any kind of portfolio.

## **Political Initiatives and Emergence of Private Universities**

It is felt that politicians for their political ends encourage private investments to invest in education particularly in higher education sector. The private investors with the support of the politicians may manipulate regulatory bodies and allow corruption in higher education sector [1]. The rich private investors may gain financial power and enter politics in order to strengthen their base. Politicians may even enter public universities through their power to decide, release and enhance grants. They may interfere in staff appointments, admissions, award of grades and graduation through the appointment of the vice chancellor/Chief Executive Officer of the public university. Politicians' interference in the activities of private universities may be often less hectic as they control the regulatory bodies. In fact, politicians may also invest in private universities.

## **Possible Money-Minting Strategies in Higher Education**

It is viewed that money-minting strategies are more prevalent in private universities as most of them directly aim for making profits. Majority of the public universities have also been forced to earn alternate sources of revenue after globalisation as the governments across the globe either reduced their grants or capped grants. This trend might have provided an opportunity to individual employees of public universities also to aim at maximising their personal revenue along with that of university. Money-minting strategies perhaps are ubiquitous and diverse across the universities in various countries. This probably results in corruption in both public and private higher education sectors. The possible corruptive practices include getting accreditation status above the eligible grade, attracting students with inaccurate/false information and using marketing strategies/tactics, increasing faculty output in teaching by allocating more number of and closely related courses to each faculty member, teaching during weekends, teaching during evening hours and securing funding for research, consultancy, short courses, training, etc. [2]. In addition, universities may obtain staff output in admissions and special academic and nonacademic events organised by the university.

## **Private Educational Institutions in India**

The private sector through trusts and societies, but not through 'for-profit organisations', is allowed to establish and run higher educational institutions in India.

Emergence of the private sector in higher education sector in India was a necessity rather than a luxury as the public sector by itself couldn't meet the growing demand for higher education due to several reasons including, but not limited to,

government's approach to cap and/or reduction in funding to public universities. In addition, the private sector may provide for flexibility in curriculum design and development like introduction of industry-based curriculum/relevant programmes, real-time curriculum redesign and options for a variety of electives/specialisations, based on multi-disciplinary work approach, a variety of pedagogies, flexible systems and procedures, and of outcome-based/problem-based education and close interaction with stakeholders particularly with employers like business and industry.

This phenomenal shift might have resulted in the emergence of educational entrepreneurs also known as edu-preneurs to establish private educational institutions like business schools, technical colleges and private universities in different countries [3]. Edu-preneurs also emerged in India even though private colleges and universities have to be established by societies/trusts rather than 'for-profit organisations' under the Companies Act. The main purpose of edu-preneurs may be to make profits rather than to provide education as a service.

Some of the real estate operators/brokers, toddy traders, money lenders and politicians might have turned into edu-preneurs when the Government of India encouraged the private sector to start higher educational institutions.

The criticism against edu-preneurs in India was that they siphon off funds from the institutes illegally as private educational institutions need to be established by societies/trusts rather than by companies established under the Companies Act for profit. In fact, these private institutions tend to make profits by following unethical means, but the profits can't be shared legally as the edu-preneurs are trustees as per the law rather than shareholders. Hence, edu-preneurs perhaps siphon off funds illegally in the process of construction of buildings, sale of seats (in students admissions under management quota), etc. [4]. Some edu-preneurs converted their colleges into deemed universities when the Government of India allowed private investors to establish deemed universities and some others converted them into private universities when various state governments allowed private investors to establish private universities. In addition to conversion of colleges into universities, new private investors who were viewed as trustees as per the law and/or in the books might have also established deemed universities and private universities in India.

## **Private and Deemed Universities in India**

Private and deemed-to-be universities (also referred to as deemed universities) are permitted to establish and operate in India in order to meet the growing need for education in the country particularly during and after the 2000s. Deemed-to-be university is declared by a notification of the central government, on the advice of the University Grants Commission (UGC), under Section 3 of the UGC Act, 1956. Deemed universities based on meeting certain standards prescribed by the central government were permitted to be established unlike the previous universities that were established by the enactment of legislation. Private universities are established under respective state legislations. There were 126 deemed-to-be universities,

mostly private, 334 private universities, 48 universities established by the central government and 399 universities established by various state governments as of 31 March 2019. The total number of universities was 907 in India as of 31 March 2019 [5]. Thus, deemed universities and private universities occupy nearly 50% of universities in India as of 31 March 2019.

Establishment of deemed universities and private universities in various parts of India brought significant shifts in higher education sector both positive and negative. In fact, it is viewed that this development disturbed the quality of higher education in the country and provided an opportunity for infusing business principles including unethical aspects into the education sector by private investment even though they were established by trusts and societies.

The State of Chhattisgarh permitted private universities under Section 5 of the Chhattisgarh Private Sector University Act, 2002, which permits the registration of private universities in the State without the approval of UGC and also allowed proliferation of private universities. Prof. Yashpal – former Chairman of the University Grants Commission – had challenged the legality of Section 5 of the Act. The Supreme Court of India quashed the provision of the state law allowing registration of such universities which was a blow to mushrooming of private universities in Chhattisgarh [6]. Critics claim that this facility was provided to pay back for political favours [7].

Professor Yashpal viewed that many management and engineering institutions, which were transformed into deemed universities, had ‘bad standards of education and they also fleece students’. Yashpal-led committee advised the government to scrap the deemed-to-be-university status to these universities as they failed to follow the norms. A committee headed by Prof. P. N. Tandon was appointed for Review of Existing Institutions Deemed to be Universities. This committee in its report in 2009 recommended to blacklist 44 deemed universities. Consequently, these 44 deemed universities were blacklisted in 2010. However, 34 of these universities fulfilled norms in 2014, and the University Grants Commission allowed them to operate as deemed-to-be universities [8]. It was felt that deemed as well as private universities started illegal and unethical practices like opening franchises across the country and awarding degrees without evaluations [9]. It was observed that some of these universities also started study centres with the help of consultancy firms outside the jurisdiction of the university concerned, which helped to sell degrees for a price [10].

It was felt that the states like Rajasthan and Uttar Pradesh with relatively low literacy rates have the highest number of private universities established under respective state legislations. In contrast, reports indicate that states with the highest literacy rate have not yet enacted state legislation to allow private universities. Generation of revenue might be the reason for allowing private universities by the state governments. It was alleged that most of the private universities were established by politicians turned business people and business people.

It was also felt that most of these deemed universities and private universities are run by families on business lines even though they were established as societies and/

or trusts. In addition, it was felt that important administrative positions of most of these universities were held by the family members who are not qualified [7].

## UGC Conducts Spot Inspections

It was viewed that private universities concentrate on window-dressing and manipulative strategies to impress upon the regulatory bodies. Hence, the regulatory bodies conduct surprise inspections with a view to find out the actual state and status of following the guidelines prescribed by the regulatory bodies. The University Grants Commission conducted spot inspection of 159 out of 278 private universities in order to check whether they follow the prescribed guidelines [11].

## Public Universities and Their Private Affiliated Colleges

It was felt that mushroom growth of colleges affiliated to public universities without required infrastructure and faculty resulted in lowering of instructional standards. It was observed that the public universities were unable to manage and monitor a large number of affiliated colleges. Such examples include Jawaharlal Nehru Technological University in Andhra Pradesh and Telangana states and Guru Gobind Singh Indraprastha University, New Delhi [12]. It was viewed that the increase in the number of affiliated colleges, beyond the managerial capacity of public universities, resulted in reduction in the quality of higher education [13].

### *Window-Dressing and Manipulative Strategies of Affiliated Colleges*

It was viewed that some of the private universities and colleges craft and implement window-dressing and manipulative strategies rather than following the guidelines of the regulatory bodies with the sole goal of maximising profits. It was stated that Jawaharlal Nehru Technological University-Hyderabad (JNTU-H), India, took several measures to enhance the standard of education in its affiliated colleges including biometric for students' attendance, faculty recruitment by eliminating dummy faculty, scientific ways of evaluation of students' examination answer scripts, maintaining staff-student ratios, weeding out fake certificates produced by faculty, etc. The verification process indicated that some of the faculty members produced fake Ph.D. certificates. This resulted in termination of services of such faculty members. It was also alleged that some of the colleges affiliated to JNTU-H engage fake faculty and paying actually less salaries to staff through the strategy of paying full salary and getting back 50% of the salary paid from the faculty members' bank accounts. It was also criticised that managements hold automatic teller machine (ATM) cards of faculty in order to withdraw 50% of the salary as soon as the salary is credited to the faculty members' accounts [14].

**Mr. Mukund:** Professor, I am sorry to know the state of affairs in private universities and colleges. How is the situation in medical educational institutions?

**Professor:** Good question. Let me explain the situation in the most sensitive area, i.e. medical educational institutions.

## Private Medical Educational Institutions in India

Most of the private medical colleges were concentrated in Maharashtra, and southern states of the country, even though there was a requirement that health authorities of the state government concerned have to issue a no-objection certificate based on the need for a medical college to offer Bachelor of Medicine and Bachelor of Surgery (MBBS) programme as well as availability of enough clinical load in the region concerned to endure a medical college [15]. It is viewed that these states established private medical colleges in order to make money by charging high fee and providing low-quality education. Anathakrishnan, N, and Shanthi, A.K., indicated that students of private medical colleges experience low quality of education and high capitation fee [16].

Private medical colleges and their students might have suffered from a number of challenges as infrastructure needed by medical education is greater than non-medical education. It is felt that these challenges included poor quality of hospitals attached to the medical colleges, low levels of merit of students admitted as the students were admitted based on their ability to pay high fee including capitation fee (in addition to minimum educational qualifications), low-quality faculty and inferior laboratory and library facilities. Most of these challenges might be due to heavy fixed and working capital requirements of medical education and profit motive of private colleges. These two factors might have resulted in collection of capitation fee and abnormal tuition and other fees from students.

It was viewed that private medical colleges should not be run by business people under the mask of societies/trusts as achieving high profitability by maintaining quality norms is very difficult in medical colleges. Hence, medical colleges should be run either by the government or by philanthropists as their goal is not making money. It was felt that the quality of private medical education has been at stake as private managements concentrate on profits.

It was criticised that most of the private medical colleges commit frauds in recruiting faculty members with a view to reduce cost as a strategy to maximise profits. These frauds may include importation of faculty members from other medical colleges just before the inspection by the Medical Council of India. It was also criticised that even the most valuable life-saving equipment was brought by the medical colleges just before Medical Council of India's (MCI) inspection and that too on hire. It was also felt that a number of brokers emerged to arrange for hire of faculty members and of all kinds of medical equipment for the purpose of inspec-

tion by the Medical Council of India. In addition, the same faculty members were perhaps listed as full-time faculty in more than one medical college [17]. It was felt that almost all medical colleges including public medical colleges suffer from faculty shortage due to massive and sudden expansion of medical colleges in India.

Another important factor that determines quality of medical education is availability of clinical material. Widespread establishment of medical colleges resulted in shortage of clinical material affecting the quality of teaching. It was also felt that some of the private medical colleges falsified and/or window dressed daily attendance of outpatients and inpatients and medical treatments to suit MCI norms.

It was also criticised that some of the private medical colleges actually admit the students several months after the lapse of the scheduled date of admissions mandated by the Supreme Court of India, which caused in not only reduction in study time for the students but also difficulty for the students to cope up with the instruction which was in advanced stage. However, records might be fabricated as if the students were admitted quite before the last date of admissions. This might be the case with postgraduate admissions also [18].

It was felt that establishment and operation of private medical colleges in the country resulted in reduction in the quality of input and throughout which in turn resulted in failure of implementation of quality norms of output in order to pass the students by reducing the pass marks. Anathakrishnan, N, and Shanthi, A.K., indicated that there was a case of addition of as many as 45 marks in the final year examination to the marks obtained by individual candidates to enable them to pass in the Tamil Nadu Dr. M.G.R. Medical University. It was observed that most of the private medical colleges manipulated internal assessment marks in order to increase the pass rate of students. It was alleged that most of the students were awarded 90% of marks in internal assessment, so that their pass becomes easy with getting even less marks in final examinations. Consequently, the Medical Council of India reduced the weightage of internal assessment in the summative process [19].

These factors of ill-equipped medical education in the country might be due to a number of factors mostly related to the political system in the country that led to establishment of private medical colleges and in turn unethical practices in private education in general and medical education in particular.

**Mukund:** Professor, thank you for the details provided.

**Professor:** Mukund, you are welcome.

**Mr. Gopal:** Professor, what about engineering education in India?

**Professor:** Mr. Gopal, I will explain the highly responsive sub-sector to the job demands, i.e. engineering education sector in India.

## Engineering Education in India

India was one of the major producers of engineering graduates. There are a variety of engineering institutes in India, viz. Indian Institutes of Technology, National Institutes of Technology, Indian Institute of Engineering and Technology, Indian Institutes of Information Technology, the Institution of Engineers, specialised universities in engineering and technology like Jawaharlal Nehru Technological University, engineering departments in comprehensive public universities, deemed universities, private universities and engineering colleges affiliated to public universities and polytechnic institutes.

All India Council for Technical Education (AICTE) was set up as an advisory body in 1945 and was given the status of regulatory authority in 1987 with the enactment of All India Council for Technical Education Act, 1987. AICTE was delegated with the authority of planning, coordinating, managing and regulating engineering and management education in India with the power of accreditation of engineering colleges and universities offering engineering programmes [20].

There were 1,553,809 undergraduate engineering seats in 3288 engineering colleges and 197,018 postgraduate engineering seats in 2234 engineering colleges in India in 2016–2017 academic year. These figures were exclusive of universities offering engineering programmes (Source: [www.aicte-india.org](http://www.aicte-india.org)).

It was felt that massive expansion of engineering colleges in India was facilitated by AICTE's corruptive and liberal approach in sanctioning private engineering colleges. It was quite unfortunate to learn that professors of Indian Institutes of Technology and other top engineering colleges were found to have played roles in illegal sanctions of private engineering colleges in India when the Central Bureau of Investigations (CBI) conducted investigations. The cases were registered against even Prof. R.A. Yadav, the then Chairman of AICTE, for illegally granting permission to engineering colleges without even basic infrastructure and facilities. It was mentioned by CBI that same buildings were shown to AICTE's expert committee three times to get permission for three different engineering colleges. It was alleged that some colleges just showed farm land as site for the proposed college. CBI booked cases against professors including a professor from Indian Institutes of Technology-Delhi for submitting false reports. CBI forwarded its investigation reports to the Ministry of Human Resource Development [21]. The Central Bureau of Investigations raided the chief of the regulatory body of engineering colleges for accepting a bribe of \$11,300 in 2010 and found his investments worth \$446,511 [22].

It was felt that massive expansion of engineering education in India resulted in very poor quality of students' intake, substandard and inexperienced faculty and poor quality of laboratories and library facilities which in turn led to lowering instructional and examination standards in most of the engineering institutes. It was criticised that these factors resulted in production of a large number of unemployable engineering graduates. It was felt that the problem of substandard engineering education, consequent upon mushrooming of low-quality engineering colleges, has been well-known in the country [23].

It was criticised that low quality of engineering graduates affected their employability. *Aspiring Minds* – an employment assessment – expressed in 2018 that only 6% of Indian engineering graduates were employable. A McKinney report 10 years back indicated that just 25% of engineering graduates were employable [23].

Problems of engineering education have been multifold. It was alleged that these problems include shortage of qualified and experienced faculty due to massive expansion, poor quality of students due to excess supply of seats compared to demand for the same again due to massive and sudden expansion of number of colleges including in rural areas, lack of soft skills to students consequent upon deficiencies in the previous stages of the supply chain like in primary and high schools and also as most of the students were drawn from rural and semiurban areas, absence of seriousness and commitment of both students and staff, absenteeism of both students and staff to classes and profit maximisation motive of managements.

It was alleged that managements of majority of engineering colleges and private universities were interested in maximising fee revenue by collecting capitation fee and admitting students on a massive scale without caring for facilities, monitoring and maintaining quality in terms of curriculum, teaching and providing practical and employable skills through wide interaction with industry.

It was also commented that outdated curriculum that lacks emphasis on skill-based instruction and learning in most of the engineering colleges and even in some of the top universities dealing with engineering programmes particularly in the areas of information and communication technology was not comparable with that of world-class universities. In turn, low-quality engineering graduates became problems for rapid and world-class industrialisation during the Fourth Industrial Revolution era in India [24].

In fact Prof. U.R. Rao's committee as early as in 2003 observed that technical education was expanding at a rate that can't be sustained and foresaw that glut of graduates. The committee recommended for 5-year moratorium on sanctions of engineering colleges in the states where the number of engineering colleges exceeded the national average of 150 seats for a million population. All stakeholders paid a deaf ear to this recommendation [25].

In addition, it was felt that all national-level institutes and both public and private universities were outside the regulations of AICTE until 2017–2018. Further, it was viewed that private and deemed universities increased intake of students for some branches based on demand for admission until 2017–2018 academic year. It was criticised that increase in seats in private universities posed a threat for filling the seats in colleges particularly located in semiurban and rural areas. Thus, supply of engineering seats had been continuously increasing more than the demand for the same. However, the Supreme Court of India imposed a stay on the admissions of deemed university without the approval of the AICTE in March 2018 [26].

Seats in engineering colleges have been vacant since 2015–2016 academic year. In fact more than 50% of seats in engineering colleges have been unfilled since 2015–2016 due to unemployability of substandard engineering graduates. This in turn led to closure of substandard engineering colleges and underutilisation of capacity in other engineering colleges across the country.

Consequently, AICTE imposed rules to close unviable engineering colleges that are lacking adequate facilities and that inform admissions less than 30% of sanctioned seats for five consecutive years. Around 150 colleges were closed down voluntarily, and AICTE approved progressive closure of 410 engineering colleges between 2014 and 2017–2018 across the country [27].

About 85 engineering colleges have requested AICTE to permit for closure, and 639 colleges requested to reduce seats by 62,000 in 2018–2019 academic year [28].

Closure of engineering colleges is really a national wastage as investment of private investors became dead capital and most valuable time and resources of students were jeopardised, making them misfit for many careers and taxing their parents. Who is responsible for this situation in the country? Is it AICTE for its failure of being a regulatory body and granting permission to start engineering colleges without a plan and without scrutinising the facilities and resources as per guidelines? Is it the political system in the country that allowed employing the successive CEOs of AICTE on political grounds in turn to favour the politicians? Is it due to the greed of the business people/investors of private engineering colleges, deemed universities and private universities to make quick and easy money at the cost of the future of thousands of students and human capital of the country? Is it making money out of humans by cheating them? Anyhow, it is a national wastage.

**Mr. Gopal:** Professor, thank you for your detailed analysis.

**Professor:** Welcome, Mr. Gopal. Do you want me to explain any other sub-sector?

**Mrs. Ishani:** Professor, management education is another popular sector like engineering in India. Could you please explain about management education sub-sector?

**Professor:** Yes, Mrs. Ishani. This sub-sector is also highly reactive to the environment like engineering sub-sector. Let me explain.

## Management Education in India

India is one of the major producers of management graduates also. There are a variety of management institutes in India, viz. Indian Institutes of Management, management departments of central and state universities, management departments of deemed and private universities, colleges affiliated to state public universities offering management programmes and autonomous institutes established with the approval of All India Council for Technical Education (AICTE). AICTE was delegated with the authority of planning, coordinating, managing and regulating engineering and management education in India with the power of accreditation of management institutes/colleges and universities offering management programmes with effect from 1987 under All India Council for Technical Education Act, 1987 [20].

There were more than 3500 management colleges offering postgraduate programmes in India in 2015–2016 academic year, and a number of seats available were around 520,000 in 2015–2016 against 320,000 seats in 2011–2012. There were over 3000 management colleges recognised by AICTE in 2017–2018 [29].

According to D.S. Rawat, Secretary General of Associated Chamber of Commerce and Industry of India (ASSOCHAM), ‘there are more seats than the takers in the B-schools. This is not surprising in the wake of poor placement records of the pass-outs’. Rawat further indicated that the ‘quality of higher education in India across disciplines is poor and does not meet the needs of the corporate world’ [30].

It was felt that massive expansion of management education in India with very poor quality of students’ intake, substandard and inexperienced faculty members and poor quality of computer laboratories and library facilities resulted in lowering instructional and examination standards in most of the management colleges. Consequently, India produced a large number of management graduates who were unemployed. A study of ASSOCHAM’s Education Committee noted that only 7% of management graduates were eligible to be employed [30].

One of the former presidents of the Republic of India, in a convocation address at the [Birla Institute of Technology](#), Mesra, on 10 January 2016, indicated that increase in private higher education ‘.... accounting for greater student enrolment with continued proliferation has resulted in a greater access but has made an alarming distress in the quality of the education. Therefore we shall have to work very hard’, as reported in the [Times of India](#) [31].

It was felt that parents and/or sponsors of management students spent lakhs of rupees for their management education, but the salary that was offered to most of them was abnormally low, had they been offered a job.

Centre for Forecasting and Research, New Delhi’s research indicates several irregularities and unethical practices of private business schools. These irregularities/unethical practices include sale of seats reserved for candidates of reserved categories to general/unreserved categories in Karnataka and providing admissions to the unqualified candidates who were the children of police officers in New Delhi even without conducting eligibility test which was a mandatory requirement [32].

It was stated that problems of management education like engineering education have also been multifold. They include shortage of qualified and experienced faculty due to massive expansion, poor quality of students due to excess supply of seats compared to demand for the same consequent upon massive and sudden expansion of number of colleges in various parts of the country including in rural areas, lack of soft skills to students consequent upon deficiencies in the previous stages of the supply chain like in primary and high schools and also as most of the students were drawn from rural and semiurban areas, absence of seriousness and commitment of both students and staff and consequently absenteeism of both students and staff to classes and profit maximisation motive of management as happened in case of engineering colleges.

It was alleged that managements of majority of management colleges and private universities were interested in maximising fee revenue by collecting capitation fee, reducing cost and admitting students on a massive scale without caring for facilities,

monitoring and maintaining quality in terms of curriculum, teaching and providing practical and employable skills through wide interaction with industry as was the case with engineering education.

In addition to this, all national-level institutes and both public and private universities were outside the regulations of AICTE for some time. Consequently, private universities started increasing student intake until 2017–2018 academic year based on demand in their respective institutions. Increase in seats by universities and institutes which were outside the purview of AICTE poses a threat to enlarge the supply as well as to fill the seats in colleges particularly in colleges located in semi-urban and rural areas. Thus, supply of management seats was continuously increasing more than the demand for the same. However, as indicated earlier, the Supreme Court of India imposed a stay on the admissions of deemed university without the approval of the AICTE in March 2018 [26].

Seats in management colleges have also been vacant since 2015–2016 academic year due to unemployability of substandard management graduates. This in turn led to closure of substandard management colleges. Non-viable management colleges started expressing their interest of closing their operations from 2015 to 2016 academic year. The number of management colleges that expressed interest in voluntary closure to All India Council of Technical Education was 66 in 2015–2016 academic year, 76 in 2016–2017 academic year and 101 in 2017–2018 academic year [29].

This is also really a national wastage as investment of private investors of closed colleges and/or colleges where seats were reduced became dead capital and wastage of most valuable time of all concerned. Both financial and human resources of students were jeopardised, making them misfit for many careers and taxing their parents. Who is responsible for this situation in the country? Is it AICTE for its failure of being a regulatory body and granting permission to start management colleges without a plan and without scrutinising the facilities and resources as per guidelines? Is it the political system in the country that allowed employing the successive CEOs of AICTE on political grounds in turn to favour the politicians?

It is criticised that this situation was mostly due to the greediness of the business people/investors of private management colleges and private universities as well as regulatory bodies to make quick and easy money at the cost of the future of thousands of students. It might also be due to the concentration of private educational institutions on profit maximisation by increasing revenue and minimising cost.

**Income Maximisation Strategies** It is felt that income maximisation strategies of some of the private higher educational institutes include creation of seats under management quota and sale of these seats at capitation fee (capitation fee normally is more than the normal fee); sale of seats meant for the candidates under non-resident Indians (NRIs) quota at normally higher fee to the national candidates; collection of additional fee under a number of heads; collection of higher tuition fee; collection of transportation fee from all students even though they have their own transport; creation of a number of profit centres like canteen, print shop and bookshop; collection of higher fee for examinations; collection of fee in lieu of atten-

dance; and collection of caution deposits from students but fail to refund the same even after graduating. It was reported that the Supreme Court of India ruled out that capitation fee by educational institutions was patently illegal. 'Further commercialization in education sector was not permissible and institutes must operate on a 'no-profit-no-loss basis' [33]. However, most of the private educational institutions didn't follow the basis of 'no-profit-no-loss, even though they are established as trusts/societies.

It was criticised that there were cases of manipulating records and accounts for the purpose of increasing revenue. The Government of Andhra Pradesh announced and implemented the facility of reimbursement of fee payable by students to affiliated private colleges. Educational institutions submitted expenses details to the government. Admissions and Fee Regulatory Committee of Andhra Pradesh State Council of Higher Education's subcommittee found that some colleges overstated expenditure by inflating the number of academic staff. It was reported that these colleges overstated expenditure under staff salaries ranging between Rs. 1.32 crores to Rs. 4.16 crores in 2016–2017 [34].

**Cost Reduction Strategies** Some of the allegations against private universities and/or colleges include some private educational institutions which are self-financing promise to pay salaries to academic staff as per the regulations of All India Council of Technical Education/University Grants Commission of India at the time of recruitment, but pay less than the stipulated salary and at irregular times. It was alleged that some colleges pay as per the stipulations on records, but with a condition of returning the balance between agreed salary and stipulated salary as per the norms of the All India Council of Technical Education/the University Grants Commission. It was also felt that in order to save cost of staff, some of the private educational institutions terminate some academic staff during summer vacations and reemploy them as and when the class work resumes. It was further reported that there would be deductions from staff salaries in the name of recreational fund/welfare fund, which was never used for staff recreation/welfare by some private universities/colleges. It was felt that such funds were used to enhance the institutions' profits. Most of the staff doesn't get any allowances other than pay. It was also stated that other strategies include termination of services of senior staff drawing higher salaries and employment of inexperienced and young staff at low pay.

**Inferior Quality of Graduates** Criticisms levelled against some of the private colleges and/or universities with regard to quality of graduates include employment of less qualitative academic staff by edu-preneurs in order to reduce the cost of staff. It was stated that they prefer to invest in buildings rather than in staff development. Their recruitment considerations may be loyalty and adhere to their practices rather than merit and efficiency. In addition, they may not prefer to invest in laboratories and libraries as per the norms. These practices in turn may result in production of inferior quality of graduates. It was viewed that private universities and/or colleges in the country are responsible for lowering the quality of higher education [35].

**Other Strategies** Other criticisms leveled against some of the private colleges and/or universities include owners of private educational institutions/edu-entrepreneurs enjoy the supremacy over the academicians by insulting them when they speak of academic standards, academic quality, academic systems and procedures. In fact, they may also prefer to fire them under fake charges as and when academicians try to follow quality standards. Some private universities and/or colleges might have used to withhold students' certificates and prefer not to refund students' fee when they would like to withdraw after they get admissions in public/premier universities. Honourable Prakash Javadekar, the then Minister of Human Resource Development, Government of India, admitted the same and informed that the University Grants Commission 'would soon notify rules to prevent such unethical practices'. In addition, private universities and/or colleges used staff for student recruitment by visiting coaching centres and houses of prospective students [36].

**Branding and Ranking** It was alleged that some of the edu-preneurs have been employing a number of unethical strategies to build branding of the institutions. These strategies may include inviting some important people in the society to speak good about the institution through stage management tactics. Similarly, they invite prominent academicians and industrialists for guest lectures by paying huge honorarium. They may use these business people and industrialists for student placements, which in turn help in branding [4].

The virtual rather than legal owners of private educational institutions may earn profits unethically as the bye-law of society and the government regulations don't provide scope for making profit [32].

In addition to a large number of engineering and management colleges as well as low qualitative private universities, fake universities are also in existence to make money. These universities might be established by greedy investors. It is viewed that the most greedy but politically and/or financially weak edu-preneurs established fake universities in India.

**Mrs. Kiranmayi:** Professor, some time back I saw a notification about fake universities. Could you please explain about fake universities?

**Professor:** Mrs. Kiranmayi, I will.

## Fake Universities and Educational Institutions in India

Universities established without the recognition of/registration with the government or its statutory bodies of the country concerned where they operate are called fake universities.

Fourteen fake universities have been in operation during the last 17 years in India. The University Grants Commission of India releases the list of fake universi-

ties which are not authorised to provide education and issue degrees from time to time. These universities continue to exist and operate since the last 17 years or even more. The number of fake universities increased to 23 by 2017–2018 academic year. It was alleged that the Government of India has not been successful to see that such institutions cease to exist and operate. In other words, these fake universities have been successful in earning profits by doing illegal business and indulging in unethical practices. In addition, these universities caused damage to the career of students and waste of students' time, efforts and resources [3]. The University Grants Commission of India cautions the prospective students about the fake universities from time to time. List of fake universities are also placed on the UGC website [www.ugc.ac.in](http://www.ugc.ac.in). In addition to fake universities, there were 279 fake technical educational institutes in India as per the All India Council for Technical Education. Delhi alone accounts for 66, Telangana state accounts for 43, Karnataka state accounts for 23 and Andhra Pradesh accounts for 12 of such fake technical institutions. List of fake technical institutions are placed on AICTE website [www.aicte-india.org](http://www.aicte-india.org) [3]. It is felt that regulatory bodies in India were not successful in controlling fake universities and institutions.

**Mrs. Sukhanya Devi:** Professor, could you please throw some light on regulatory bodies in higher education sector in India.

**Professor:** I will.

## Regulatory Bodies in India

The growing private sector in higher education demands strong regulatory bodies to ensure delivery of relevant and quality education by controlling pure business practices as the country's future depends on the quality of its education system and practices. There are various regulatory bodies in higher education in India to regulate not only the private sector but also the public sector that are dealing with higher education like the University Grants Commission, All India Council for Technical Education, Medical Council of India, etc. In fact, these regulatory bodies draw and depute experts from Indian universities and institutes for inspection to various educational institutions to verify whether the educational institutions fulfil the stipulated requirements or not. But corruptive practices of officials of the regulatory bodies had been reported [37]. Even the officials of Medical Council of India were reported to be corrupt. It was stated that the President of Medical Council of India was arrested in 2010 for allegedly taking bribes for sanctioning recognition for new medical colleges. It was viewed as beyond imagination to learn that the same person was appointed again on the Medical Council of India [38].

**Professor:** Now I explain research aspect.

## Research Guidance

It was reported as quite unfortunate to note that there have been several scandals, bribes and sexual favours in research (M.Phil and Ph.D) guidance. It was indicated that research supervisors/academic staff expect bribe and sexual favours from research students [39].

It was criticised that managements of some of the universities were least bothered of quality of research work as they were interested in fee through the admission of more number of research students. The University Grants Commission of India imposes several conditions to regulate research programmes in universities, but it was criticised that private universities find various means to violate them virtually.

**Mr. Suresh:** Professor, I wonder of the unethical practices in research education also. I hope there would be corruptive practices in conduct of admission tests also. Could you please touch this area also?

**Professor:** Let me explain a case in this regard.

There are possibilities of corruptive and unethical practices in admission tests as well as in competitive/job screening examinations, in addition to university academic and administrative operations. A significant one of such corruptive practices took place in Madhya Pradesh state in India, i.e. the Vyapam scam.

## Vyapam Scam in Madhya Pradesh State

Vyapam is an autonomous and self-financing professional examinations board established by the State Government of Madhya Pradesh for conducting various entrance examinations for admission into various educational institutes and jobs in various government departments in the state of Madhya Pradesh, India.

Vyapam scam was unearthed in 2013 when Indore police arrested 20 candidates who came to impersonate premedical test in 2009, even though several attempts were made earlier based on the complaints received. It was viewed that the leader Mr. Jagadish Sagar of an organised [racket](#) was involved in the scam, and 20 other persons were arrested [40]. It was alleged that subsequent interrogations found the involvement of a number of politicians, bureaucrats, officials, parents and even former education minister. The case was referred to the Central Bureau of Investigation by the Supreme Court of India in July 2015 [41].

On 13 February 2017, the Supreme Court of India delivered an 83-page judgement and cancelled the degrees of 634 doctors. The court said that ‘The actions of the appellants are founded on unacceptable behaviour and in complete breach of rule of law.... We have no difficulty in concluding in favour of rule of law... Fraud cannot be allowed to trounce, on the stratagem of public good’ [42].

**Mr. Suresh:** Professor, thank you.

**Professor:** You are welcome. Let me now present an analysis of these issues.

**Professor:** Dear participants,

I now summarise the allegations against some of the private higher educational institutes in India as follows: Entry of business people and politicians turned business people in the higher education sector might have resulted in massive expansion of engineering colleges and management colleges before 2010 and later establishment of private universities in India, resulting in excess supply of higher education facilities and decline in quality of graduates consequent upon the corruption and unethical practices of some of the managements and some officials of regulatory bodies. In fact, some of the higher educational institutions in India were established by business people and politicians who might be influenced by lust or greed, which in turn resulted in closure of some engineering and management colleges or reduction in capacity of colleges or underutilisation of capacity in other colleges. Some of the private universities in India have also been facing similar problems of underutilisation of capacity. It was viewed that they failed to achieve their vision and mission due to their greed and lust. In fact, education is expected to provide values and ethics in addition to technical knowledge of the course/programme concerned and thus provides directions for better living through earning. Low quality of education results in loss to generations together unlike producing low-quality products. Thus, greed of higher educational institutions might have resulted in loss to the management in the form of closure/underutilisation of capacity and to the country and society in the form of harming human resources development process of the current and future generations.

**Ishani:** Professor, your summary is quite apt. Could you please explain the Dharmatman's views?

**Professor:** Ishani, I am also waiting for the same. Now I will do.

**Dear participants! Now let me draw some relevant verses from Bhagavad Gita.**

*Dharmatman* Sri Krishna indicates in Verse 39 of Chapter 3 of Srimad Bhagavad Gita that 'And, Arjuna, knowledge stands covered by this eternal enemy of the wise, known as desire, which is insatiable like fire'.

As indicated by Lord Sri Krishna, consciousness of business people might have been covered by eternal enemy in the form of desire which is turned into lust. This lust is never satisfied as satisfaction of one want leads to formation of another higher want. This process goes on and on without any end and burns like fire.

In fact, Mr. Nitin....your father was able to control the external environment and thus he was not greedy. But you couldn't protect your consciousness from external environment. Hence, you became greedy like some of the managements of Indian

private educational institutions. As the *Dharmatman* indicates, your desire/greed or lust is never ending and burns you like fire as happened to some of the business people.

Mr. Nitin, Lord further indicates in Verse 40 of Chapter 3 of Bhagavad Gita as: 'The senses, the mind and the intellect are declared to be its seat; covering the knowledge through these, it (desire) deludes the embodied soul'. As Lord indicates, your senses particularly your eyes and ears might have loaded information about business, competition and maximising profits by some of the private higher educational institutes, etc. in your brain and mind when you have been interacting with the environment. Information and knowledge, thus you acquired modified your intelligence also to form the opinion that profit is the sole goal of the business even in the education sector.

Further, I would like to caution you with regard to your approach of sacrificing the human cause in terms of reducing quality and increasing fee for achievement of your goal of profiteering which may result in sin. *The Dharmatman* further indicates in Verse 41 of Chapter 3 of Bhagavad Gita that 'Therefore, Arjuna, you must first control your senses, and then kill evil things which obstructs Jnana (Knowledge of the Absolute or Nirguna Brahma) and Vijnana (Knowledge of Sakara Brahma or manifest Divinity)'. As indicated by Sri Krishna, it would be better to regulate senses, so that you can prevent the greed from entering your mind and intelligence. This kind of sense regulation would help you in protecting yourself from committing sin or hurting human beings as well as enabling the formation of the best human resources for the nation development.

**Nitin:** Professor, thank you for your apt interpretation of relevant verses from Bhagavad Gita which is quite applicable to me also. Could you please explain the situation in other countries also?

**Professor:** Mr. Nitin, thank you for your interest. I will explain.

**Dear participants,**

Unethical practices in the education sector are not just limited to India or any other country. They spread to various countries. Now, I explain some of such practices in other countries.

### ***Are Universities Forced to Take Diversion from the Basic Purpose?***

Universities and other educational institutions are expected to stand for free flow of ideas and knowledge, debate, scholarship, research, intellectual excellence and fellowship for the highest level of truth. Universities and other educational institutions normally strive for this cause when they are financially and administratively independent and autonomous. But liberalisation, privatisation and globalisation of the

education sector resulted in loss of funding to universities across the world. Universities, of late, are funded by private investors whose goal invariably is mostly profit-making. Public universities are also directed to think financially as they are forced to compete with private universities in terms of functioning based on efficiency and economic principles and offer programmes that are relevant to the prospective employers. Even donors also shifted their purpose from philanthropy (the cause of free flow of ideas, scholarship and fellowship) to goal-oriented and outcome-based donations. Now, it is a rare phenomenon for the universities to get donations of intellectual freedom and discourse. One of such rare phenomena is that Chicago-based businessman Mr. Ken Griffin cited University of Chicago's commitment towards open discourse as a motivation for his donation of \$125 million which is rare after globalisation [43].

## Advanced Countries and International Education

**Professor:** Participants, first I will deal with universities in the USA, Australia and the UK.

Globalisation also brought demand for international jobs. Consequently, demand for acquiring foreign degrees particularly from universities in advanced countries has been on increase. This shift might have provided an opportunity to advanced countries and their universities to consider education as an export-oriented industry to export educational services particularly to developing countries. These developments might have provided opportunities to universities for business and consequently unethical practices/scandals in both developing countries which send students and advanced countries which get international students. For example, some private unaccredited universities in the USA in the past admitted foreign students by collecting tuition fee. Students of this university were not required to attend classes. It is alleged that some public universities in the USA admitted substandard foreign students in order to earn money from them. In addition, problems were uncovered by quality assurance agencies in the UK with regard to franchised degree programmes of the UK universities operating in various countries.

## Agents and International Students

Another problem with international higher education was involvement of agents. These agents in order to maximise their commission are involved in many fraudulent cases like pushing unqualified students through helping them in writing admission essays, production of fake documents, document tampering and tampering Graduation Admission Test Scores for students mostly from China and India. Agents earned millions of dollars as commission from universities and also sometimes from clients [44].

It was alleged that cheating in examinations is encouraged in a few private universities in order to increase pass rate and thereby admissions and revenue. Administration of the universities poses blind eye and deaf ear to the complaints submitted by staff [45].

These factors perhaps drove international education towards unethical direction by reducing quality, standards and relevance, but aiming towards making money for the university and agents, getting degrees for the students and provision of getting and extending relevant visas for jobs for the students after acquiring degrees in some cases.

**Chinese Students in US Universities** It was alleged that consultants to recruit Chinese students are involved in unethical practices of engaging in preparing application articles and lecturer references and also fabricating academic marks and graduation certificates [46].

## **Admissions in the USA: Meritocracy to Aristocracy?**

Cheating and bribery by paying hundreds of thousands of US dollars in order to get admission in elite research universities in the USA by actresses and business leaders for their children posed a challenge to the most trusted academic structure of one of the most advanced countries. Parents were involved in cheating for admission of their children without allowing information to leak to their children, and hence, children took fake tests [47].

Bribery emerged as donations to the universities. A series of admission scandals took place between 2011 and 2018. US federal prosecutors disclosed on 12 March 2019 that at least 50 people were alleged to take part in these scandals. Around 33 fathers/mothers of aspirants were accused of paying more than \$25 million during 2011–2018 to William Rick Singer who was managing the arrangement by inflating applicant's entrance test scores by bribing college officials [48]. Singer is also involved in bribing college/university athletics staff and coaches who submit certain names of elite sports recruit names to the admission offices. He also fabricated profiles of applicants and editing their images using Photoshop by inserting applicant's photograph onto photograph of another person participating in the sports [49].

## **Private Academic Institutions in the USA**

'For-profit' private universities are common in the USA. These universities in the USA grew up significantly during 1972–2009 and declined later mostly due to greater scrutiny by and negative attention of the government towards 'for-profit universities'. For-profit private academic institutions in the USA were initially financed by institutional investors, and cash flows were provided by various government loan funds. These loan funds provided significant amount of funds through

student loans. These institutions received more than 20% federal aid in 2009–2010. They received about 70% of their finances from Title IV programmes [50].

Private for-profit universities in the USA targeted nontraditional students, and adapted flexible schedules and flexible locations, and used adjunct faculty or faculty with experience and actual job-related training instead of outmoded teaching. As per the report of the Department of Veterans Affairs, the number of complaints lodged by veterans was more against for-profit private universities like the University of Phoenix, DeVry University and Colorado Technical University than for-non-profit private universities and public institutions [51].

There were a number of criticisms against the functioning of for-profit educational institutions in the USA. They include:

- Nicholas Turner of the Treasury Department and Stephen Riegg Cellini of George Washington University conducted a research in 2016 and found that there was value deletion in case of for-profit college pupils before and after attending these colleges.
- Pupils who studied in for-profit colleges during 2006–2008 had student loan debt.
- Laureate Education – one of the biggest for-profit educational group in the USA – was said to have more than million students in North America, Latin America, Europe, Middle East, Africa and Asia Pacific. Mr. Bill Clinton – former US president – had been the honorary Chancellor [52].
- It was alleged that for-profit educational institutions were closely knitted with political networks. It was reported that the US for-profit educational institutions are involved in political lobbying and spent significant amount of money on this activity. This industry in the USA spent more than \$ 4.5 million in 2012 as against \$483,000 in 1990 [53]. Career Education Colleges and Universities which were also known as the Association of Private Sector Colleges were the most significant industry lobby in the USA [54]. Politicians like Bill Clinton [55] and former Defence Secretary Leon Panetta were associated with for-profit educational institutions [56]. In fact, it was stated that Bill Clinton was paid around \$17.5 million during 2010–2015 by Laureate Education Group consisting of Walden University [57].
- It was alleged that for-profit educational institutions spent billions of dollars on marketing in order to recruit the students. In fact, the University of Phoenix, ITT Tech, DeVry and Capella spent US\$ 100 million on Google Ads in 2011 [58].
- It was reported that vocational schools in 1940 became ‘fly-by-night’ and had grown in order to grab veterans’ tuition based on GI Bills [59].
- It was reported that for-profit colleges were allowed to obtain finances from the US government to include Pell Grants and federal student loans, and consequently their number increased significantly during 1972–1976 [60]. Share of for-profit colleges in Pell Grants increased from 7% in 1974 to 21% in 1986, even though for-profit educational institutions enrolled just 5% of students’ strength during this period [61].

- It was alleged that for-profit educational institutions influenced the report of the Pelavin and Associates, which was employed to investigate problems of for-profit educational institutions. In fact, Pelavin and Associates found abuses by these institutions. For-profit educational institutions combat the report through Blair [61].
- Patty Sullivan – former lobbyist of Career College Association – stated that 35–40% of for-profit colleges engaged in fraud in 1992, when 85-15 rule was included by amending the Higher Education Act (which was intended to limit federal funding to 85% of a school's funding) [61].
- Student loan defaults to the tune 54% was contributed by 135 for-profit colleges. Institutional frauds to the extent of 74% were contributed by for-profit educational institutions. It was also stated by Harkin Report and *The New York Times* in 2012 that 47% student loan defaults were by the students of for-profit colleges though their share in student enrolment was 13% as 96% of students of for-profit colleges avail loans [62].
- It was stated by the Institute for College Access and Success's report that student defaulting rate of for-profit colleges was three times above than that of the public and other private colleges. A report by the Institute for College Access and Success in 2014 revealed that the probability of a pupil non-payment in for-profit colleges was three to four times more than that of public and other private educational institutions and community colleges [63].

## Trends in Student Strength in For-Profit Colleges in the USA

The US government deregulated higher education through reauthorisation of Higher Education Act in 1998. In addition, there were funds reduction, 'no-change status' and severity in public university financing in the 1980s and 1990s [64]. These factors gave fillip to the growth of for-profit educational institutions and first public offerings of these universities during 1991–1998 [61].

Consequently, the number of for-profit colleges increased from 200 to 1000 during 1986–2007 [65]. Further, the share of for-profit colleges in the total undergraduate student strength accounted for 11.8% in 2009 [66].

It was reported that students' enrolments in for-profit colleges increased to peak stage in 2009 and started declining from 2010. The decline rate was 21% from 2010 to 2013 and 10% during 2014–2015. Two major companies, viz. [Corinthian Colleges](#) and [Education Management Corporation](#), started facing severe problems of enrolment and consequently financial problems due to decline in income in 2014 and 2015 [67]. Report of *The Wall Street Journal* in 2016 indicated that for-profit colleges closed 180 of their campuses during 2014–2016. It also indicated that enrolment of these colleges declined by 165,000 (15%) during this period [68].

Table 5.1 depicts decline in enrolment of students in for-profit educational institutes and loss/closure/sale of institutes in the USA.

**Table 5.1** Decline in enrolment/closure of campuses

S. no.	Group	Decline in enrolment	Loss/closure/sale
1	University of Phoenix chain	Enrolment decline by 22% since 2010	Loss by 70%. More than 100 campuses were closed since 2012
2	<a href="#">DeVry University</a>	23% in 2016	
3	Hondros College, a nursing school chain	14% decline	
4	<a href="#">ITT Technical Institute</a>		Shut down all places in September 2016
5	Education Management Corporation		Disposed other schools to the non-profit Dream Foundation
6	Atalem		Atalem sold its declining DeVry University
7	Keller School of Management		Keller School of Management was disposed to Cogswell Education, a division of Palm Ventures
8	<a href="#">Education Corporation of America</a>		<a href="#">Education Corporation of America</a> declared in September 2018 that their 26 campuses about to be shut down
9	<a href="#">Trump University</a>		<a href="#">Trump University</a> was shut down by the State of New York for unauthorised operation
10	FastTrain College		FBI raided FastTrain College that resulted in its shutdown in 2014
11	<a href="#">Westwood College</a>		All its campuses were shut down in 2016
12	ATI and Kaplan		Non-payment rate was above 20% in ATI and Kaplan, whereas it was around 5% in case of <a href="#">Florida International University</a> , a public university

Source: 'New York judge finds Donald Trump liable for unlicensed school'. Reuters. 16 October 2014. And 'FBI — Fast Train Owner and Three Admissions Representatives Arrested for Theft of Federal Student Aid'. 'FY11 Official 300 Report' (ZIP). 2.ed.gov

Decline in students' enrolments and consequent financial problems led to closure of Corinthian and closure of many campuses of Education Management. In addition enrolment of the University of Phoenix (a subsidiary of Apollo Group) declined by above 50% during 2009 and 2014. Apollo Education Group is part of Apollo Global Management [69]. A number of campuses of for-profit colleges/university campuses including that of the University of Phoenix and Everest College had been closed since 2012 [70].

All Heald College campuses of [Corinthian Colleges](#), [Westwood College](#) campuses, ITT Technical Institute and DeVry University multiple campuses were closed during 2015 and 2016 due to financial problems consequent upon decline in enrolment [71].

The [Accrediting Council for Independent Colleges and Schools](#) (ACICS) was given the authority as a higher education accreditation agency again in November 2018, which was lost during the Obama administration [72].

It was alleged that private universities accepted candidates with low high school grades for admission in order to increase revenue. It was noted that high rates of acceptance of students' admissions would be at the cost of quality of education. It was criticised that private universities mostly admit the students in order to maximise the revenue through government scholarships and government loans of students.

Westech, California; [MedVance Institute](#) in [Miami, Florida](#); [Anthem Institute](#) in [Springfield, Pennsylvania](#); and [Westwood College](#) in [Dallas, Texas](#), were reported as institutions involved in fraudulent activities to get student loans and to make the students qualify under Pell Grant [73].

## Public University Acquiring the Characters of a Profit-Making University

It was alleged that though University of Maryland's mission is to 'offer top-quality educational opportunities to adult students in Maryland, the nation, and the world', it turned to be a profit-making university, by reducing expenses at the cost of quality of teaching and learning by offering low standards of education, approaching for semi-autonomous status that allows to have the advantages of public university and for-profit university like admission to federal higher education finances, reduced inspection from certifying agencies, good reputation, hire and fire staff, address staff complaints at their discretion, raise tuition fee without government approval and also exempt some records from disclosure to public. These allowed the university to enjoy the benefits of a public university and also a for-profit university. This in turn, as reported, allowed the university to run like a for-profit university on business principles at the cost of quality education as well as providing education in less demanding/profitable areas like liberal arts, philosophy and history. It was further alleged that the university took a decision to replace standard textbooks by web-based modular seminars, web references and e-Readings in order to minimise expenditure barring quality and relevance of the learning resources. It was stated that the university, instead, preferred to spend more money on advertising to recruit more students [74].

**Accreditation and Transfer of Credits** Many for-profit universities are of national accreditation, while other educational institutions like public and non-for-profit educational institutions have regional accreditation. It was indicated that institutions with regional accreditation were not accepting transfer of credits from institutions with national accreditation. Thus, the students of for-profit educational institutions had been in a disadvantageous position.

## ***Australia***

Australian universities started attracting international students from 1986 due to decline in federal funding consequent upon globalisation. The number of international students increased by 13-fold from 1988 to 2014. International students constituted 18–25% of students' population in some universities during that period. Share of international students in the total student population was even higher in business schools. It was noticed that the main purpose of attracting international students was to generate revenue. Australian universities collected billions of dollars from full-fee paying international students [75].

It was noted that the purpose of earning revenue had a conflict with the obligation of the universities to ensure academic quality and integrity. It was alleged that universities fail to maintain quality due to a variety of corruption practices like relaxing entry requirements for international students, fabrication of admission documents, cheating in English Language Proficiency Test, buying assignments, plagiarism and malpractices in examinations. Thus, it was viewed that corruption had been at all stages of educational administration. Ultimately, this might have resulted in producing unqualified graduates. This perhaps had highly risky effect in case of professional programmes like engineering, medicine and nursing. It was seriously alleged that Chinese students could buy ready-made essays. It was felt that academicians' teaching has been undermined by more revenue earning. It was reported that academicians were forced to pass the weak students. Thus, it was viewed that Australian universities compromised the quality and integrity for revenue. It was, however, reported that Australian universities realised after 30 years of attracting international students, they earned high revenue at the cost of quality, standards and integrity which has far-reaching effect and disastrous effect on higher education sector [76].

## ***Private Universities in the UK***

There were concerns about private universities in the UK like those in other countries when the government decided to allow private universities. The concerns were mainly related to the operational issues of private universities. Private universities would operate on business lines, and hence they can't meet skill requirements in stem areas, viz. science, technology, engineering and mathematics. Private universities tend to teach cheaply to a mass market. It is also observed that majority of private universities offer programmes in business and administration as offering engineering and technology programmes needs heavy investment and hence they are costly [77]. The UK has been cautious in allowing expansion of private universities in view of experiences in the USA regarding recruitment tactics, dropout rates, quality and student financial support [78].

The University of Wales – the second biggest university in the UK with more than 120 years of existence and 70,000 students enrolled in 130 colleges in various countries – had to abolish its more profitable programmes due to visa scam followed by sales of answers of diploma examinations. Diplomas provided entry to its MBA admissions, which allowed them to obtain the UK visa. It was alleged that the university management failed to check foreign colleges accredited to it for the purpose of awarding degree/diplomas [79].

**Professor:** Participants, now I deal with universities in other countries.

## Private Universities in African Countries

It was reported that private universities in South Africa emphasised on commercial fields of study and meet the admission needs of those students who were not prepared to opt for public universities. Private universities were criticised for low academic quality, failure to deliver partnership obligations and heavy commercialisation of operations in the form of cutting costs which are related to attracting students. It was also alleged that private universities spend on those areas which help in students' job placements thus help for students' recruitment. It was reported that most of the private universities are owned by the large business houses, which help the universities in job placements [80].

It was alleged that Nigerian universities were mostly characterised by favouritism and nepotism in recruitment, selection and promotions, publication of target-oriented falsified research, fabricated publications, payment-based publications, forcing the students to buy books written by professors of the university concerned, widespread plagiarism and fabrication of publications. It is quite unfortunate to note that the names of academicians who didn't work for publication were also added as authors as they might be superiors in academic/administrative hierarchy or paid for the publication fee of the journal in East African countries [81]. It was viewed that these practices were prevalent in most of the developing countries.

## *Other Countries*

Cases like plagiarism, pocketing research grant funds and favouritism in research staff appointment were noticed in China. Corrupt cases in higher education in Russia during 2008 and 2009 were reported [82].

**Mr. Ram:** Professor, thank you for explaining the unethical practices in the education sector in various countries. I am interested in knowing fake universities in other countries like in India. Please explain, if there are any.

**Professor:** Good. They exist in other countries also. I explain now. In fact, they are also called degree mills/unrecognised universities in various countries.

## **Degree Mills/Fake/Unrecognised Educational Institutions and Fake Accreditations**

The government of the country concerned or its statutory bodies recognise universities in the country to operate through legislation. Universities established without the recognition of/registration with the government or its statutory bodies of the country concerned where they operate are called fake universities.

Universities established without the recognition of/registration with the government or its statutory bodies concerned where they operate may be called fake/unrecognised universities or degree mills. The objective of such universities may be making profit by cheating. These universities may sell illegitimate degrees for a price, even though they prescribe some guidelines for recognising prior learning or experience on paper. Some of these unrecognised universities may claim that they have accreditation. Even these accreditation bodies may be unauthenticated by the respective governments or statutory bodies.

Degree mills are just like fly-by-night businesses established by the edu-preneurs/entrepreneurs taking the short-run advantage of gap between demand for and supply of higher education/degrees as well as social, political and religious status phobia of rich people, politicians and business people who failed to have formal qualification.

Degree mills may not have teaching facilities and teaching staff as formal teaching and learning are not emphasised. Degrees issued by these degree mills may be used as credentials by the awardees in their own business organisations, not in other organisations as these are unrecognised. One person was charged for issuing 2000 bogus degree certificates in Bangalore, India, in 2017. Estimations reveal that a significant number of people secured jobs based on fake credentials [83]. Others may use these degrees as a social status [84]. North America and Europe are heavens for location of degree mills. Degree mills in other locations are not well-known [85].

It was viewed that these cases were prevalent in developing countries like Ghana, Kenya, Nigeria, Tanzania and Uganda. Degree mill numbers have been on increase even though governments have been taking measures to shut down them. In fact, the National Council for Higher Education, Uganda, cancelled 66 Ph.D. degrees awarded by a private university in Uganda due to various academic deficiencies including unqualified research supervisors [86].

Several cases of fake degrees by universities or fabrication of degrees was reported in several countries including Lebanon. It was discovered when a soldier applied for promotion using forged diplomas. A network of corrupt universities and government officials was exposed [87].

South African government through its appropriate authorities ordered for shut-down of 42 bogus private universities/colleges in May 2015 as these institutions were offering fake degrees. It was believed that this number of 42 includes three US-based universities that were offering degrees within 15 days [85].

In addition to fake universities and degree mills, there are also issues of sexually transmitted grades and cash-generated grades. Let me explain those also.

## Sexually Transmitted Grades and Cash-Generated Grades

It was condemned that some of the universities and colleges violated even ethical norms in education. For example, the officials of Rani Durgavati Vishwavidyalaya, Jabalpur, Madhya Pradesh, India, were arrested over the sex-for-marks scandal [88]. It was felt that this practice was prevalent in other countries also where mostly male teachers engage in sexual activities with female students in exchange of pass and/or better grades. Most of the victims were female students, and they suffer silently without lodging a complaint [89].

It was reported that sexually transmitted grades were more prevalent in high schools in Uganda, South Africa, Republic of Benin and other African countries. This practice not only created insecurity among female students but also affected quality in education [90]. It was stated that the incident of sexually transmitted grades at the University of Lagos, Nigeria, was unearthed by British Broadcast Corporation [91]. It was noted that sex for jobs as well as for marks was prevalent in universities in South Africa as a group of academics wrote to the Minister of Higher Education and Training [92].

It was reported that even students in US universities faced with sexual harassment. It was indicated from the studies in 1990s that about 33% of female students faced sexual harassment in the USA [93]. Sexual harassment was reported in Australian universities also. It was reported that every alternate female student was sexually harassed. Postgraduate students were mostly sexually harassed by lecturers [94].

**Cash-Generated Grades** It was further alleged that sometimes, lecturers awarded pass grade and higher in exchange of money. In addition, university officials also change grades in exchange of money. Such grades are called cash-generated grades or grades-for-cash. It is felt that these cases exist even in advanced countries like the USA [95].

**Gopal:** Professor, I am so much upset with the cases of sexually transmitted cases as education is believed to be a sacred profession. I hope there should be quality assurance agencies in the education sector which are supposed to control all these unethical practices.

**Professor:** Gopal, you are right. There are cases of corruption in quality assurance also. Let me deal with such cases also.

## Corruption in Quality Assurance

Report on ‘Policies and Actions of Accreditation and Quality Assurance Bodies to Counter Corruption in Higher Education’ published by the Council for Higher Education Accreditation (CHEA) and the CHEA International Quality Group (CIQG) states that:

- (i) Corruption in universities has been present in all areas of operations including quality assurance and accreditation and in almost all countries, but at the varying degrees.
- (ii) Accreditation and quality assurance bodies may not fully address corruption and malpractice issues despite their sanctions.
- (iii) Accreditation and quality assurance bodies should revise standards of evaluation and impose new terms to address corruption and malpractices.
- (iv) Corruption in higher education involves political interference in these institutions as is the case with even advanced countries like Australia and the USA. It is more prevalent in developing countries. In addition, bribery in employment of academic staff in developing countries and appointment of staff with fake degrees are also prevalent in developing countries as happened in some universities in Russia and other countries.
- (v) Other problems like absence of international benchmarks in academic and administrative standards; absenteeism of professors to academic duties; delegating academic work by senior academic staff to juniors/research students, ghost academic staff and ghost writers of doctoral dissertations; adjustment of students’ results to increase pass percentages; and the like [96].

Private businesses treat education also like any other business manufacturing or trading. But Bob Chase, president of the [National Education Association](#), indicated in 2000 that ‘educating children is very different from producing a product’ [97].

**Gopal:** Professor, thank you. Could you please relate the directions of the Dharmatman to the issues in higher education sector?

**Professor:** Gopal, you are welcome. Now, let us relate Lord Krishna’s teachings in Bhagavad Gita for the issues in higher education sector.

It is alleged that the international scenario also indicates that some of the greedy ‘for-profit’ private universities and colleges in the USA were also closed. Some of the engineering colleges and management colleges in India were closed. Capacity in some engineering and management colleges as well as private universities was

either reduced or underutilised in India. Australian universities which attracted foreign students for making money realised that they were responsible for decline in quality of graduates. It was viewed that greed crept into even regulatory bodies turning them into corrupt bodies. Thus, greed/lust resulted in loss as well as spoiling the development process of human resources. So, my friend, Mr. Nitin, don't allow your senses to feed information about profit maximisation. Then mind and intelligence will be in control. Therefore, as the *Dharmatman* indicates, give up greed that will help you to be happy with normal profits with a satisfaction of contributing to human resource development as well as the development of the country. This will enable you to be free from sinful reactions as the Lord indicates in Verse 21 of Chapter 4 of Bhagavad Gita as 'Having subdued in mind and body, and having given up all objects of enjoyment, free from craving, he who performs sheer bodily action, does not incur sin'.

*Dharmatman* Sri Krishna further indicates in Verse 25 of Chapter 17 of Bhagavad Gita that 'With the idea that all this belongs to GOD, who is denoted by the appellation "TAT", acts of sacrifice and austerity as well as acts of charity of various kinds, are performed by the seekers of liberation, expecting no return for them'. Sacrifice and charity without anticipating returns help you to divert your senses and mind from the material world and also to contribute to the economic and social growth of the needy.

Sri Krishna also indicates in Verse 16 of Chapter 3 of Bhagavad Gita that 'Arjuna who does not follow the wheel of creation thus set in motion in this world, i.e., does not perform his duties, leads to a sinful and sensual life, he lives in vain'.

As indicated by the *Dharmatman*, you should perform sacrifice and charity, so that you will be detached from the sole goal of profit maximisation and divert your attention towards the human resource development and thereby nation development. Then you can live happily with sacrifice and charity as indicated by the Lord as in Verse 31 of Chapter 4 of Bhagavad Gita: 'Arjuna, Yogis who enjoy the nectar that has been left over after the performance of sacrifice attain the eternal Brahma. To the man who does not offer sacrifice, even this world is not happy; how, then, can the other world be happy'?

Mr. Nitin, follow the path of your father (i.e. quality education at affordable fee) as it is close to the teachings of Lord Sri Krishna of controlling the senses, mind and intelligence from the material engagement and engage in sacrifice and charity without expecting returns, so that you will have a meaningful, ethical and peaceful life in addition to contributing to the welfare of others, human resource development and nation development.

**Nitin:** Professor, thank you for providing extensive information, analysis and interpretations from Srimad Bhagavad Gita and apt advice.

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## Chapter 6

# Human Consideration vs. Business Orientation



**Professor** My dear participants, we have discussed in the previous session the higher education sector, which shapes human resource development, and today we will discuss about the healthcare and medical sector as it protects human resources and those of a nation. Any participant who has some experience in this sector can share knowledge for the benefit of all of us.

**Harishankar** Professor, I have experience in this sector. I will present with your permission.

My father didn't know much about the principles of business, but he was a business tycoon. He knew one and only one approach to do business. That was profit maximisation. He maximised profit by cutting cost and increasing revenue. When my father was around 8 years old, my grandfather told my father: 'One paisa saved is one paisa earned'. He followed this principle strictly and perfectly.

He started business of wholesale trading in pharmaceuticals when he was around 25 years old. He used to buy at the least possible price and sell at the highest possible price by using the problems of people or the degree of the need for a product at that point of time as opportunity. In fact, he used to craft strategies in converting others' problems into business opportunities even subconsciously. He used to cut expenditure to the maximum extent possible. Business people attribute the following character to him: 'if cost cut beyond a point is not possible for him, it means it wouldn't be possible for anyone else'. He expanded his trading business and employed around 100 people within 5 years. He ploughed back profits to the tune of millions of rupees. This enabled him to start a pharmaceutical manufacturing company by following 'forward integration strategy' with limited loans from banks.

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Note: The meanings of verses of Bhagavad Gita are taken from Srimad Bhagavadgita, published by Gita Press Gorakhpur India, 2019, with permission from the publisher.

My father improved the size of his business and profits mostly by practising cost-minimisation and revenue maximisation strategies, even though sometimes his acts resulted in unethical acts. He often used variable pricing policy. He accumulated billions of Rupees by the time I entered the business.

I should speak a little bit about myself. My personality is different compared to that of my father. I think I am more of a humanitarian, which I have acquired since my childhood as my mother used to guide me a lot. The reason is that my father was busy with his business.

I used to spend a considerable time with my education and in my father's business. I was a great critic of my father's principles. But my father never took my criticisms seriously as his business was growing steadily.

I got my master's degree and Ph.D. degree in Pharmacy from a reputed university and later also took master's degree in Business Administration in the USA.

I returned from the USA for good after working in a research organisation for three years. I announced that I was coming home and that my father needed rest and should retire upon my return to India. My father understood that I was going to take over his business. He worried a lot, thinking that I may lead the business to losses as I used to be his critic. But my mother and sister supported me by telling my father religious speeches and philosophies. Then my father decided to hand over the business respectfully to me.

Ultimately, the day came when he announced his retirement as the chief executive officer (CEO), but he accepted to continue as the chairman of the board at my instance.

I took charge of the company as its CEO. I spoke to all employees about one and only one word – 'perfection'. I explained this word to everyone in the company, emphasising on perfection in all stages, from 'planning to customer ecstasy/delight and in all operations like identifying and developing the suppliers of raw materials to the stage of after use of the product by the customer', as sustainable customer delight is the primary goal of the business, achieved through employee cooperation. My approach is 'people are the first and prime'. I told my employees: 'Don't think about anything except doing your own work perfectly'. Later I started helping, demonstrating and explaining all technical, marketing and financial aspects to employees. I specified that by following the policy of perfection, we do business legally, ethically and in a socially acceptable and environmentally conducive manner, in addition to meeting customers' current as well as changing needs proactively. In fact, we were following latest technologies and management practices. I further indicated that customer delight and ecstasy cover all aspects, including customer expectations and emotions, health and safety of the products and social and ethical norms for the use of the products.

I declared a 'zero firing' employee policy in the company. I also arranged a series of training programmes and management development programmes for the employees.

My father was surprised to notice the positive changes in the business. Product quality was improved drastically, including product innovations and new product lines. I improved customer base and the uses of the products.

I announced a 40% salary hike to all employees. Now the employees started talking so highly about my policies and practices. I started feeling proud.

Later, I introduced another management practice – the ‘Supplier Development Programme’. All suppliers took an active part in it and learned a number of new technical aspects of developing high-quality raw materials for us. I also announced high prices, credit facilities and technical support for them.

With these developments, I further enhanced the quality of our final products, which my father couldn’t fathom at all, of course our competitors too.

Later, I announced another programme called ‘Dealer Development’, wherein I arranged a training programme for the dealers in technical, marketing, finance and managerial aspects. I also announced financial assistance, technical support, credit sales with no interest and cash discounts on payment on delivery.

Then I instructed our employees to visit customers’ sites to get their feedback on the improved product quality, product variety, delivery, technical support, etc. I took measures to improve business operations and performance based on customers’ feedback. I further organised ‘Customers Meet’ in each of the regions.

Then I organised ‘Other Stakeholders’ Meet’, including banks, insurance companies, universities, research organisations, non-government organisations (NGOs), our competitors, government departments etc., and explained the changes I have been carrying out and emphasised that ‘perfection’ will produce positive results for all, including the customers, society and environment. Everybody, including our competitors, cherished my speech and approaches as my innovations and new management practices speak loudly of themselves. In fact, I extended ‘collaboration in competition’ and told the competitors that they can have the facility of technology and knowledge sharing. My father was surprised at my approach.

My father thought I have already completed all my reforms. Suddenly one evening, I organised an ‘Employees Meet’ and announced that we are going to establish another factory in the neighbouring state and that around 50% of the employees of the current factory will be assigned there on a voluntary basis but with a higher pay. A few employees showed some doubting faces, but then I explained that we are going to introduce ‘Enterprise Resource Planning (ERP)’, which will enable us to run this factory with 50% of the existing employees. I also indicated the cost of the ERP project and told employees that ‘one rupee expended is one rupee invested’.

**Suresh** Harishankar, I wonder about your approach. It seems so apt and perfect.

**Harishankar** Mr. Suresh, you are right. My approach is completely different from that of my father.

I always speak of doing things perfectly without keeping profit in mind, and the approach ‘one rupee expended is one rupee invested’ is quite in contrast with my

father's approach of 'one paisa saved is one paisa earned'. My father was among those to 'drop their jaws'.

Again, I spoke to all employees. The essence of my speech is partly this: 'I take care of you, and you take care of business. Business ideas come from you, which will contribute to achieving the company's goals and social well-being.'

I further said: 'I believe in and emphasize only on "perfection". Perfect practices take care of employees, and their job satisfaction results in customers' delight and ecstasy, which in turn take care of sustainability of business, profits, society and the environment.' So my goal is not profit, and profit is only a derivative of 'perfection'. My philosophy is that profits follow perfection, so business people need not aim for profits or results as their basic and final goal. We should aim for perfect action and perfect action only. My approach seems to be broader than Richard Branson's approach.

Now my father announced that he retired even psychologically as he couldn't believe in and practise better than what I have been doing, at least at this juncture. 'Perfection' is not just business, but it is a 'MISSION'. I remember that *Dharmatman* Sri Krishna said in Verse 45 of Chapter 18 of Bhagavad Gita: 'keenly devoted to his own natural duty, man attains the highest perfection in the form of God-realisation. Hear the mode of performance where by the man engaged in his inborn duty reaches that highest consummation.' [1]

**Professor** Mr. Harishankar, your approach has been perfect. But some practices in the health industry are contrary to what you have presented. They might be close to or even worse than the practices of your father. We shall now deal with them.

## Issues of Doctors and Hospitals in India

There have been criticisms against some doctors and hospitals with regard to a variety of unethical practices. Some of such criticisms were published in electronic and print media, while others may not find a place in media. Now we discuss these criticisms.

Akanksha Jain in her article on, 'Scary, real incidents' presented unethical practices of Indian doctors. She mentioned a case of a pregnant woman who was suffering from stomach pain. It was criticised that the doctors of the hospital managed her sonography reports and concluded that a surgery had to be conducted on her on an emergency basis, just to earn money [2]. She further indicated that there were several such incidents in Indian medical profession. Such incidents were brought down in the form of a book by Dr. Arun Gadre and Dr. Abhay Shukla entitled 'Dissenting Diagnosis, Voices of Conscience from the Medical Profession'.

Dr. Arun Gadre and Dr. Abhay Shukla interviewed 78 specialist doctors and revealed in this book the information acquired by them on how unethical practices took place for the purpose of minting money. This book, published by Random House India, exposed the techniques that the doctors used to manipulate the system,

for example by falsely claiming that a normal fever is a dengue fever, and how the surgeries were conducted. Dr. Gadre and Dr. Shukla told Business Insider India that new private medical colleges in India should not be established until the regulatory system, including the Medical Council of India, is thoroughly overhauled. They felt that the three key elements constituting a good doctor, viz. (i) practical and hands-on clinical skills, (ii) scientific medicine based on rational practice and (iii) medical ethics, are difficult to find in most doctors in India due to commercialisation of medical education and health services. Most doctors are unethical. Some of the ethical doctors who know about the unethical practices of their colleagues demanded for the regulation of private medical hospitals [3].

### **Referral Fee**

It was alleged that doctors and hospitals charge a referral fee for referring patients for consultancy and treatment. For example, Max Super Specialty Hospital charged referral money from patients when they were referred from one department to another department of the same hospital, as well as from other hospitals to Max Super Specialty Hospital, as alleged by Dr. Virendar Sarwal, a senior cardiac surgeon. It was believed that Dr. Virendra Sarwal's services were terminated by the management of Max Super Specialty Hospital for raising various unethical issues practised by the hospital. There was another issue of deducting referral money from the pay of Dr. Sarwal. The issue was brought to a court of law. However, it was solved mutually at the intervention of the court, which ordered a senior advocate for the appellant (Max Hospital) to give a cheque to the senior advocate of the petitioner amounting to Rs. 1,416,600 [4]. It was alleged that a reference for an angioplasty can cost up to Rs. 40,000 when the average monthly income of an Indian is just around Rs. 20,000 per month [5].

**Mr. Mukund** Professor, you have provided good information about unethical issues among doctors and hospitals. Could you please provide information about unethical practices regarding pricing in hospitals?

**Professor** Mr. Mukund, I will present such cases.

## **Abnormal Pricing of Services in Private Hospitals and Absence of Regulations**

Patients quite often criticise how private hospitals charge abnormal prices for medicines and their services. The National Pharmaceutical Price Authority studied patient bills of four significant hospitals in Delhi area and believed that these hospitals charged many times (even 1000%) more than the normal prices. It was also believed that these hospitals used several methods to enhance their profits. Important observations of the report include the following:

- Part of the cost of scheduled medicine in the total billing was only 4.10%, while part of cost of non-scheduled formulations was 25.67% in all the four cases.

- Doctors preferred to prescribe non-scheduled branded medicines in order to get higher margins. Prices of scheduled branded medicines are fixed by the government, while prices of non-scheduled medicines are unregulated.
- Hospitals order medicines in bulk and force pharmaceutical companies to print higher prices. This strategy is for the purpose of earning higher profits.
- Hospitals used rules counter to the government's measures to regulate hospitals. Hence, the government's measures are ineffective in these cases.
- Share of cost of diagnostic services was more than 15%. Patients were not given a choice to get diagnostic services and medicines from outside.
- These hospitals had very high margins in non-scheduled devices, like syringes, cannula and catheters used in treatment [6].

These practices of the four hospitals presented by the National Pharmaceutical Price Authority (NPPA) might be proof of charging exorbitantly and exploiting patients, as noted by Mira Shiva, co-convenor of the All India Drug Action Network. These are the unethical practices in a life-saving industry.

Gopendra Singh Parmar, a resident of Dhaulpur, Rajasthan, complained that Medanta the Medicity treated his son for dengue, who died on 22 December 2017, and the hospital charged Rs. 16 lakhs. It was observed that the share of medicines and consumables was more than 45%, and the share of laboratory charges was 9.5% of the bill of Rs. 16 lakhs. It was viewed that the hospital had heavy margins of profit in these two items [7].

In another case, Mr. Jayant Singh, whose daughter died while undergoing treatment in Frontis hospital, paid Rs. 16 lakhs [8] to the hospital. He expressed: 'I appreciate the NPPA conducting such a detailed and thorough analysis and identifying the systematic loot of private hospitals. I expect the government to take cognisance of NPPA's findings and create new policy and regulation that will deter the healthcare mafia from fleecing patients and prevent criminal collusion between pharmaceutical companies and hospitals/doctors.' [9]

**Mr. Ram** Professor, thank you for the information on abnormal pricing in hospitals. I learned that private hospital management fixes targets for doctors in terms of revenues. Am I right?

**Professor** Mr. Ram, I am going to explain the same. Let me proceed.

## Financial Targets for Doctors in Private Hospitals

One of the allegations was that some private hospitals set financial goals for doctors. Dr. Gautam Mistry – a cardiologist in Kolkata, India – told Meera K – a journalist in Bangalore – that the unethical practice of setting financial targets for doctors in private hospitals are widely known in the medical circle. According to Dr. Mistry, 'Doctors who faced pressure from hospital management to overprescribe surgeries

or investigations fear for their livelihood. Also they need to practise for a certain number of years, and by complaining they would be jeopardizing their career' [10].

It was alleged that harm to patients caused by the practices of private hospitals include setting financial targets to doctors. These targets force the doctors to prescribe unnecessary tests and surgeries [11, 12].

Dr. Gautam Mistry expressed that 'For seven years I had to bear the burden of doing unnecessary investigations and procedures, including angioplasty, under pressure from the management of the hospital...'. According to Dr. Kunal Saha, president of the NGO 'People for Better Treatment', 'Significant numbers of patients must be advised to be admitted for surgery or medical procedures that bring in real financial profit for the hospital ... Needless surgery, even simple procedures like tonsillectomy or appendectomy, may cause unexpected hazards for the patient.' These practices cause physical harm, psychological trauma as well as financial risk to patients and their families. Doctors who fail to reach the targets were threatened to be removed from their job [13].

## Second Opinion

The growing unethical practices resulted in fear among patients. Thus, patients prefer to have a second opinion. One report indicated that 44% of 12,500 patients surveyed got contrary advice when they sought a second opinion. In fact, some doctors are unwilling to follow the instructions of money-thirsty private hospitals and would like to uphold medical ethics and the code of the profession. In actuality, these problems of unethical practices in private hospitals are not limited to one country alone as it seems to be a global phenomenon. Two reports exhibited the actuals of health-care schemes in the USA, where doctors were forced to the limits of committing medical malpractice [14].

**Mr. Gopal** Professor, I am surprised about imposing targets to doctors and thereby causing harm to humans. I suspect that there are unethical practices in other areas also, like clinical trials. Please explain about unethical aspects of clinical trials.

**Professor** Yes, Mr. Gopal. I am going to do it.

## Clinical Trials

Clinical trials pose ethical dilemma as they sometimes cost even the basic life of the subjects while contributing to the well-being of a larger number of people in the long run.

India attracted the clinical trial industry. Clinical trials increased in India from 2005 due to various factors:

- Poverty and lenient regulatory measures in the country are two reasons. Also, it has a large English-language-speaking healthcare population.
- Ethical guidelines were issued by the Indian Council of Medical Research in 2000 and were modified in 2006 regarding biomedical research on human subjects, which were not legally binding.
- Though the Drug Controller General of India in 2009 made the registration of clinical trials mandatory, it was understaffed and ill-equipped to monitor regulations on research.
- Clinical trials recruited poorly literate volunteers and provided information just for the purpose of completing the requirement without ensuring that they understand correctly. The illiteracy of the volunteers and the consequent low level of understanding the conditions completely gave clinical trial companies a reason not to pay compensation properly [15].

It was reported that 5 out of the 12 clinical trial research organisations registered in the undivided Andhra Pradesh state, India, used illiterate people and also illiterate volunteers as guinea pigs [16]. It was alleged that clinical trials caused deaths of thousands of people in India. It was claimed that clinical trials organised by different pharmaceutical companies in India caused deaths of 2900 people from 2005 to 2012, but merely 45 cases were compensated [17]. In addition, it was stated that 49 infants expired in clinical trials for new drugs at the All India Institute of Medical Sciences in around 30 months, as revealed in 2008 [18].

According to Swasthya Adhikar Manch (SAM) – a non-government organisation – clinical trials and research caused the death of 4967 people and serious sickness due to adverse reaction to around 20,000 people in India between January 2005 and November 2017. It was stated that around 475 drugs were tested in trials during this period but that only 187 deceased families were compensated by the pharmaceutical companies. The trials took advantage of loopholes in the rules and inadequate regulatory machinery of the Government of India. Clinical trials in India rose after 2005, when the government relaxed its testing laws [19]. It was claimed that profits of clinical trial companies increased significantly.

Clinical trials were organised by contract research organisations using illiterate people who were hired by commercial pharmaceutical companies. In other words, the beneficiaries of such trials were the pharmaceutical companies, and the victims were the illiterate people, who lost their lives, and especially those families of the deceased to whom even compensation was not paid [20].

Were these clinical trials ethical as they contributed to the development of new drugs or unethical as they produced results at the cost of the lives of thousands of people, including babies, which deaths were not even compensated? These cases seem to be unethical as the companies exploited the poverty and illiteracy of the people and the absence of a strict regulation in India.

Another question of ethical dilemma is that the outcome of the clinical trials organised in India not just duly benefitted India by producing pharmaceuticals at affordable prices for the Indian market. These pharmaceutical companies used the results of clinical trials conducted in India to develop products and sell at high

prices, not just in the Indian market but also in foreign markets. On this basis, was it ethically justifiable to allow such highly commercial organisations that failed to care for human lives to conduct clinical trials in India and other third world nations in Asia and Africa?

In addition to the unethical issues of clinical trials, there were the issues of rural health in India. At this juncture, I explain these issues also.

## **Issues of National Rural Health Mission, Uttar Pradesh, India**

The Government of India launched the National Rural Health Mission (NHRM) to overhaul the rural health system and services in the country through funds provided by the central government to the state of Uttar Pradesh, India [21]. It was alleged that top politicians and bureaucrats, including the directors and deputy directors of the Medical and Health Services of the government of Uttar Pradesh state, India, were involved and siphoned off money amounting to around Rs. 100 billion (an equivalent of about US\$ 1.4 billion) through the National Rural Health Mission [22].

The report of the Comptroller and Auditor General reveals that the Health Mission of the state of Uttar Pradesh couldn't implement the mission due to corruption and failed to account for Rs. 5754 crores out of Rs. 8657 crores. The Central Bureau of Investigation unearthed some middlemen among the contractors, influential bureaucrats and ministers to supply medicines and equipment under the programmes and revealed that the implementation of NRHM was unprofessional, and state finances were siphoned through overpricing, the supply of medicines and medical equipment by fake firms and obtaining large amounts of kickbacks in the construction works of government-run primary health centres in rural areas [23]. It was felt that this scandal resulted in the persistence of terrible conditions in rural hospitals in the state of Uttar Pradesh, India, like broken water tanks and ambulances; shortage/non-availability of crucial medicines, including oral rehydration salts for kids with diarrhoea; and finishing of fuel meant for generators [24].

## **Unethical Cesarean Surgeries in Srikakulam District, Andhra Pradesh State, India**

It was alleged that private hospitals in Srikakulam district of Andhra Pradesh, India, conducted caesarean surgeries by charging Rs. 15,000 to Rs. 30,000 for each caesarean delivery. A study conducted by medical and health authorities revealed that private hospitals conducted caesarean deliveries for 65% of the cases indiscriminately. Government hospitals opted for caesarean delivery for 4,918 cases out of 18,675 delivery cases (or 26.21% of cases) between April 2014 and February 2015, while private hospitals conducted caesarean operations for 12,874 cases out of

18,479 cases (69.68%) during the period. R. Shyamala, Medical and Health Officer of Srikakulam district, expressed concern over the large-scale caesarean surgeries in private hospitals in the district and initiated to take necessary actions to apprehend the unethical practices of private hospitals, including improving the facilities in government hospitals even in rural areas [25].

**Mrs. Sukhanya Devi** Professor, we are very much worried about the unethical cases happening in the health sector in India. Could you please explain the unethical issues happening in other countries?

**Professor** Mrs. Sukhanya Devi, I will do.

## Issues of Doctors and Hospitals in Other Countries

Unethical practices in medical and health services are common in other countries also. It is felt that this phenomenon is prevalent in other countries. For example, corruption in medical and health services is prevailing in Malaysia, the USA, Greece, Croatia, Lithuania, Hungary, Poland, Romania and Bulgaria.

## Unethical Medical Cases in Malaysia

Sheila Stanley – a consultant based in Kuala Lumpur, Malaysia – reported unethical medical cases in Malaysia. For example, there was a 33-year-old pregnant woman whose periodic checks were done in a private maternity centre until her seven-month pregnancy. The doctors in the maternity centre at that stage told her that there was something wrong with the baby she was carrying and a strong possibility for the baby to have ‘Down syndrome’ based on the indications of the Blood tests. She was also advised to undergo various other tests, which would cost high. The woman was terrified and discussed the issue with her family members and then decided to approach a public hospital for a second opinion. The public hospital conducted tests, and doctors informed the pregnant women that the baby looked perfectly well and that there was no problem with the baby. The pregnant woman preferred the public hospital rather than the private hospital to give birth to her baby [26].

Another case is related to a routine issue of fever, cough and vomiting. It was reported that a father admitted his 8-year-old son in a private medical centre at the advice of a general practitioner to see a particular surgeon as the boy was suffering from fever, cough and vomiting for one day. The surgeon, while examining the boy, made him feel pain by pressing very hard on his abdomen, even though the boy never suffered from such abdominal pain. Then the surgeon concluded that the boy was suffering from perforated appendix, and it had to be operated on the same night. The disturbed father got his son discharged from the private medical centre around

an hour prior to surgery and consulted another doctor for a second opinion. This doctor diagnosed differently and said that the boy was not suffering from perforated appendix and treated the boy for upper respiratory tract infection, which was normal among children of that age [27].

## **Unethical Practices in Advertisements in the USA**

It was claimed that some of the unethical practices in advertisements in the US's top-ranked medical centres include drug companies creating threats and fear, arrogance by drug companies and exploiting the feelings of patients to increase sales. A study on newspaper advertisements revealed a conflict between public health and minting money. Some of the advertisements focused on creating a sense of need even among healthy people. Another study conducted on 122 advertisements in 2002 found that 62% of the advertisements used emotional appeal to attract patients. Nearly 33.3% of the advertisements claimed that high-technology medicine is always better. In fact, private hospitals argue that they should be financially viable in order to provide public health. They argued that emotional advertisements are necessary for private hospitals to be economically viable. Even the American Hospital Association indicated that emotional advertisements are acceptable if they maintain proper sensitivity toward vulnerable patients [28].

Dr. Michael Carome, director of Public Citizen's Health Research Group, alleged that a network of institutions partnered with Health Fair and issued misleading and fear-mongering advertisements to generate profits for medically unnecessary services. It was asserted that many hospitals conducted preventive health tests, including heart screening, for a variety of conditions. But hospitals claim that these tests help to detect diseases at an early stage and serve as preventive measures. But it was maintained that some hospitals conduct medical tests indiscriminately to earn money [29].

## **Unethical Practices in Greece**

The Updated Study on Corruption in the Healthcare Sector prepared by Ecorys Nederland BV in September 2017 indicated that the respondents of the survey perceived that under-the-table payments particularly for surgeries had been increasing in Greece due to the decline in the salaries of doctors and the increase in the demand for services of government hospitals consequent to the decrease in the income of people [30].

It was revealed in a raid conducted by the Greek authorities in January 2017 that a pharmaceutical company was bribing doctors and public officials in charge of the sale of drugs and hospital procurement staff to increase the sales of medical equipment. It was also revealed that the company bribed all levels of medical and health staff members, like midwives, nurses, operating theatre chief, doctors, professors

and hospital directors. The bribes were paid for fictitious services deemed to be provided by the hospital staff in the form of training to employees and consultancies to pharmaceutical companies and by sponsoring conferences and training events [31]. The company through these employees expanded its activities to other hospitals in other countries and increased its sales of medical equipment. It was further stated that three doctors were convicted of bribery by the Court of Law and received a sentence [32].

Another scandal, this time involving the reimbursement of healing dresses used for ulcer patients, was uncovered in 2016, when the e-prescription system was introduced. The investigation found that thousands of doctors used the same photos of treatment multiple times for reimbursement based on the data in the system. The prices quoted by doctors were much higher than the prices stated on the price list. It was said that the reimbursements were claimed based on fake medical services. The investigation revealed that around 1,000 doctors were involved in the scam [33].

## **Unethical Practices in Croatia**

A scandal involving a pharmaceutical company bribing doctors and exercising abuse of power and authority was uncovered in Croatia, and the case was referred to a court of law. It was reported that corruptions were in the form of air tickets, money, gifts etc. The senior management representatives of the company were accused of the crime of corrupting doctors on a large scale. It was reported that penalties such as revocation of licence to practise were imposed on some doctors [34].

## **Unethical Practices in Lithuania**

Reports reveal informal payments in many sectors in Lithuania, which are widespread in the medical and health sector in the country. The Minister of Health of Lithuania resigned in January 2016 over the issue of informal payments as she was said to have bribed a doctor in relation to the medical treatment of one of her relatives in 2006, before she was appointed as minister. It is said that informal payments are an accepted norm in the Lithuanian society.

There was also a scandal over a central public procurement in a hospital in the country. It was claimed that a hospital favoured a particular company in exchange of bribes, which were paid to top-level executives of the hospital.

In other cases, (i) one clinic's manager took a bribe from a pharmaceutical company for the procurement of medicines and medical tools in another hospital under public procurement, (ii) the chief of physicians took a bribe from a furniture company and favoured the company in terms of procurement, (iii) a pharmaceutical company bribed physicians to prescribe a particular medicine. It is believed that low salary is one of the reasons for the prevalence of bribes in hospitals in the country [35].

## Unethical Practices in Hungary

It was revealed that bribes are prevalent in Hungary also mostly due to the low salaries of medical and health professionals in the country. Healthcare professionals protested against the government and demanded for an increase in their salaries in order to prevent corruption in the medical and health sector. It was alleged that an Oncologist didn't inform the stage of the case when the patient was close to death stage in order to receive informal payments. Reports indicate that there are scandals in public procurement in hospitals in Hungary as pharmaceutical companies are said to bribe doctors and public procurement officials. [36]

## Unethical Practices in Poland

A woman worked as a doctor in a hospital and an insurance company. She obtained access to the patient database of the insurance company in 2016 and created her own database for 3000 patients. She told the insurance company that these 3000 patients had been regularly treated by her. It was reported that half of these patients were never treated by the doctor [37].

In another investigation, it was found that a costly medical equipment was donated in 2017 by a medical equipment company to an academic hospital. But this equipment was transferred to and used in a private clinic. It was asserted that there were cases of bribes in exchange for sick leave statements.

In others cases, a physician recommended for an extensive stay of a patient in a hospital in exchange for a bribe. This doctor was suspended from service after the investigation [38]. Also, it was reported that some medical specialists in Poland signed a contract to prescribe medicines manufactured by a foreign pharmaceutical company in exchange for bribes. This overseas drug company and 11 Polish medical specialists were made liable for corruption [39]. It was also claimed that some physicians in Poland prescribed branded medicines even though a list of generic medicines was available and were obliged to prescribe generic medicines [40].

## Unethical Practices in Romania

It is believed that corruption is widespread in the Romanian healthcare system, also covering all stakeholders. The modes of corruption include informal payments, providing false medical certificates to avail of social security benefits, procurement of medical devices, inappropriate practices in the appointment of hospital staff etc. It was stated that corruption is widespread and prevalent at the top level of hospitals in terms of policy making, at the middle level in terms of policy implementation and at the bottom level in terms of providing day-to-day healthcare services [41].

It was reported that the manager of a hospital grabbed money and instructed his employees to submit fake bills without providing services to cover the grabbed money [42].

## Unethical Practices in Bulgaria

It was alleged that experienced doctors motivated young and inexperienced doctors to take informal payments in Bulgaria. Also, it was reported that politicians and their relatives were exempted from informal payments and were given access to government hospitals. Government hospitals have the best medical equipment and are funded by public money. Even young physicians are subjected to informal payments for their use of advanced equipment for higher studies.

It was observed that the bribery and corruption in the medical and health sector is widespread, particularly in Southern and Eastern European member nations of the European Union. The main reasons for such situation, as reported, are inadequate salaries of doctors and other health professionals and ineffective managerial and control systems [43].

It was noted that unethical practices are common not only among doctors and hospitals but also among pharmaceutical companies. In fact, it was alleged that pharmaceutical companies were responsible for some unethical practices among doctors and other staff of health services as the former is a commercial industry.

Thus, the above incidents show that such malpractices are prevalent in both advanced and third world countries, though they differ in degree. It is believed that in advanced nations, there is at least fear of law and punishment and there are investigations and trial of persons accused, where they are given an opportunity to disprove their charges. On the other hand, in developing countries, there are so much to improve in terms of investigation; enforcement of rules, regulations and laws; and strict implementation of punishment when the crime is proved.

**Mr. Naresh** Professor, the above information indicates that pharmaceutical companies, among others, are responsible for unethical practices in hospitals and among doctors. We would like to know more about the unethical practices of pharmaceutical companies in other areas also.

**Professor** Mr. Naresh, there are several cases of unethical practices of pharmaceutical companies in other areas too. Do you want me to explain them in detail?

**Mr. Naresh** Yes, please.

**Professor** I will.

## Issues of Ethics in Pharmaceutical Companies

Pharmaceutical companies being commercial organisations tend to prefer maximisation of profits over the health issues of customers. This factor might have led the companies to resort to unethical practices. However, not all companies are unethical, but some companies tend to resort to unethical practices, forgetting that they basically deal with human health. Now we shall discuss the unethical practices of some of the pharmaceutical companies. These unethical practices, among others, include influencing doctors and academicians in medical and health sciences.

## Influencing Doctors Through Gifts

Pharmaceutical companies extensively use medical representatives to market their drugs by persuading, influencing and educating doctors about the uses and efficacy of their products. In addition, they use a variety of gift tactics to lure doctors to prescribe their drugs. These gifts include but are not limited to pens, flash drives, computers, lunch and dinner coupons, a full package of domestic and international recreation/vacation trips with family and free drug samples. It is asserted that some doctors charge patients even for free drug samples. Some viewed that accepting small gifts like pens, free samples, coupons for lunch and dinner and meeting sales executives are not unethical. In fact, according to them, these things help them acquire new information and knowledge about new drugs and are also an educative process [44].

Pharmaceutical companies obtain data from retail pharmacies and check whether a target doctor has been prescribing their medicines or not. The companies employ efforts to convince the doctors to prescribe their drugs rather than their competitor's drugs, irrespective of the superior efficacy of the competitor's drug. The companies also check whether the doctors shifted to their competitor's product through the data they obtained from retail pharmacies. If this happens, the companies reinforce their efforts in convincing the doctors to get back to their drugs [45]. However, some doctors felt that accepting expensive gifts like recreational trips and cash awards for ghost writing are unethical as doctors who accept expensive gifts are obligated to prescribe the medicines of the sponsoring company despite the level of efficacy of the medicine and its negative effects [46].

The American Medical Association's guidelines indicate that pharmaceutical companies should not offer to doctors gifts of value exceeding \$100. It was estimated as far back as in 2004 that pharmaceutical companies has been spending \$12 billion every year to offer gifts to doctors [47].

## Pharmaceutical-Industry-Sponsored Continuing Medical Education

It was alleged that the pharmaceutical industry heavily sponsors continuing medical education like seminars, conferences and workshops mostly to promote the sponsors' drugs, as well as make presentations about the favourable features of the sponsor's product, hiding the unfavourable ones [48]. Thus, educational events became biased marketing events of the sponsoring company. It was claimed that pharmaceutical companies sponsored 90% of the total funds spent on continuing medical education in 2003 in the USA [49].

## Ghostwriting in Medical Journals

There were reports about ghostwriting papers on behalf of pharmaceutical companies published in medical journals in the authorship of academicians, who only played little role in research as well as in writing the paper. But these ghost authors were paid honorarium for lending their name for the work done by professional writers [50].

It is stated that sometimes payment is made by pharmaceutical companies for research conducted by 'contract research organisations'. Contract research organisations conduct research and analyse data, and then professional writers prepare the manuscript and the academicians lend their authorship just by simply editing the manuscript. It was also alleged that pharmaceutical companies pay communication companies to arrange for its publication in best medical journals.

In an interview, Jeffrey Lisse, the first author for a paper, said that 'Merck designed the trial, paid for the trial, ran the trial ... Merck came to me after the study was completed and said, "We want your help to work on the paper." The initial paper was written at Merck, and then it was sent to me for editing.' [51] GlaxoSmithKline termed the entire process of ghost writing and publication in prominent journals as a 'Case Study Publication for Peer Review (CSPPER)' programme. Articles from this CASPPER programme were published from 2000 to 2002. It was claimed that, in 2008, Wyeth Pharmaceutical, which is currently part of Pfizer, paid ghostwriters to create articles favouring hormone replacement therapy drugs and arranged for the inclusion of academicians' names as authors and then publish them in prestigious medical journals. This process enabled doctors to read the article, assimilate the information and believe that the results were drawn independently and by unbiased academicians [52].

It was also alleged that Pfizer was involved in ghostwriting with the help of a medical education communication company. Professional writers were said to have written 85 manuscripts, which became important articles published about sertraline. It was reported that Pfizer was responsible for 18% to 24% of the articles about sertraline published from 1998 to 2004. The articles spoke positively of the drug, which were published in prominent journals and thereby had a significant impact on medical literature [53].

The most unfortunate effect of ghostwriting is that doctors believe that the papers are published by academicians, who did independent research and drew unbiased conclusions that were trustworthy. The doctors assimilate the findings and conclusions made in these papers and use such knowledge to prescribe medicines. This practice was viewed as an acute unethical practice that deceives doctors by enabling them to prescribe an ineffective drug. It is needless to mention the effect of consuming an ineffective drug on humans.

## Pharmaceutical-Industry-Sponsored Research

Clinical trials are conducted to assess a drug's use, efficiency in curing diseases and side effects and disseminate the results to all stakeholders, including the government for policy making and regulation. But it was revealed that clinical trials are funded by the pharmaceutical industry as they pay for the salaries or consultancy fees of the scientists who conduct the research. Thus, different stakeholders raise doubts about the credibility of the results of clinical trials.

It was asserted that nearly 75% of the funding for clinical trials in the US is provided by the corporate pharmaceutical industry. It is feared that the scientists compensated by the industry may take bias in evaluating the efficacy, safety, side effects etc. of the drug, favouring the company [54].

It was further claimed that Big Pharma pays and runs a majority of the clinical trials in the US as the National Institutes of Health's budget meets less [55]. It was stated that a number of industry-sponsored studies had been terminated prematurely due to financial constraints [56]. This practice, according to Evans and Pocock, 'dangerously implied that business needs can override both scientific intent and the ethical obligation to patients already randomized' [57]. It was further stated that the abrupt termination of the studies resulted in the reduction of the usefulness of the clinical trials [58]. Dissimination of results of research study that was prematurely closed, might have posed the risks [59]. It was also stated that pharmaceutical companies use placebo to show that the trials were successful in order to market their products. However, this is unethical [60].

It was also alleged that industry-sponsored research withhold the publication of unfavourable results [61]. For example, a pharmaceutical company producing levothyroxine, which was widely prescribed, delayed the publication of the results of a research study for 7 years as the generic formulation was less expensive [62].

In another case, a pharmaceutical company didn't reveal unfavourable data on lamotrigine when a paper about it was published. Practising clinicians and academicians supported the paper that didn't publish the unfavourable data [63].

There were examples of companies those initiated arbitration and legal proceedings against the academic scientists and doctors who published research results unfavourable to them [64]. In fact, members of the International Committee of Medical Journal Editors criticised the acts of scientists in accepting compensation

from the industry despite failing to conduct research and publish results independently and without any bias [65].

It was claimed that Pfizer altered, modified and removed published reports on at least 16 research studies on its epilepsy drug in order to cover up unfavourable findings and include outcomes that are only favourable to the product. In 2004, Pfizer was sued for promoting the drug illegally, but the company settled the case for \$430 million [66].

**Ms. Ishani** Professor, thank you for the critical information provided. Could you please explain the unethical practices in pricing by pharmaceutical companies?

**Professor** Yes, Ishani. I will do.

## Price Hike by Pharmaceutical Companies in the USA

Robert Klitzman, author of the book ‘The Ethics Police? The Struggle to Make Human Research Safe’, [67] alleged that pharmaceutical companies increase prices abnormally. Nirmal Mulye, founder and president of Nostrum Pharmaceuticals, increased the price of nitrofurantoin from about \$500 to more than \$2,300 a bottle and defended the increase. But it was claimed that this increase was abnormal, even though the cost of research and development was taken into consideration, and that Mulye did it only to safeguard the interest of their shareholders. Pharmaceutical companies invest money in research and development but need not increase prices of medicines abnormally to recover their investment. Added to this, they also use patients in clinical trials, for whom due payments are not made.

In the US, the government spends \$174 billion (23% of its budget) on its peoples’ healthcare through Medicare and Medicaid [68]. It is believed that this is the sector with the largest budget among all the sectors in the US, yet in 2019, the country was ranked 35th in life expectancy among the world countries. Medicare is costlier in the USA compared to most of the other countries. Abnormal increase in prices just to meet the needs of the shareholders for higher profits might be contributing to the high cost of medical facilities in the USA [69].

Turing Pharmaceuticals acquired Daraprim – a drug used to treat life-threatening parasitic infections, which was most deadly for AIDS and cancer patients. It was stated that the company increased the price of this drug from \$13.50 to \$750 soon after its acquisition. The price increase, though legal, was viewed as unethical [70].

A survey conducted by Kaiser Family Foundation revealed that 20% of American respondents were prevented to have access to vital medical treatments due to the high cost of drugs, 24% of the respondents failed to follow the prescribed dosage of medicines due to high cost and 80% of the respondents expressed that the prices of prescription drugs are unreasonable [71].

Reputation Institute, which ranks corporations’ reputation based on public perception about their product, price and hospitality, ranked Pfizer in the 22nd position (lowest), preceded by GlaxoSmithKline (21st position) in the USA [72].

With the establishment of the World Trade Organization and patent rights, eyebrows were raised as prices of critical medicines and drugs would be increased in the name of recovering investments made in research and development. However, it is felt that, from a humanitarian perspective, it is the moral obligation of pharmaceutical companies to supply medicines at affordable prices. The current system of charging abnormal prices, for particularly HIV/AIDS and cancer drugs in developing nations, was viewed as quite unethical. It was argued that the pharmaceutical companies are expected to recover their investment, but not through abnormal profits. Charging abnormal prices would result in the death of some of the patients even in rich countries and most of the patients in poor countries. Charging of high prices would only serve the interest of a few greedy investors at the cost of the lives of the majority of the disadvantaged people. Therefore, it was viewed as unethical, and hence the pharmaceutical companies were required to fix affordable prices for medicines and drugs [73].

**Mr. Ramnarayana** Professor, you have provided very interesting information.

**Professor** Ramnarayana, thank you.

**Harishankar** Professor, are there any other unethical acts of pharmaceutical companies?

**Professor** Harishankar, yes there are some more unethical acts. Now I will deal with those unethical acts/strategies practised by pharmaceutical companies.

It has been argued again and again that drug companies have to finance deeply their research and development projects; hence, they charge high prices. But some companies, rather than taking the risk of financing research and development, acquire small companies that have patent drugs. Valeant is one of such companies.

## Valeant's Strategy

Valeant crafted the strategy of acquiring small companies possessing patents and increased prices when Mr. Michael Pearson joined the company in 2008. The company reduced its investment in research and development significantly and concentrated on acquisitions. It joined together with Philidor, a 'specialty pharmacy', to distribute its patent drugs through insurers, which would put the bills for the overpriced products. In fact, some employees reported these as unethical practices. This strategy initially increased the profits of the company but later resulted in loss of profits and increase in debt due to acquisitions [74].

## Evergreening

Evergreening is a term used to denote an extension of the period of patents before they expire for the purpose of getting the benefits of patents, like royalties, charging high prices, buyout, continuation of competition etc., beyond the period of the patents [75]. It was alleged that the pharmaceutical industry crafted the strategy of evergreening to get the benefits of patents for a longer period. There are several examples of evergreening. A few examples are as follows.

‘AstraZeneca in order to maintain the monopoly of the blockbuster drug Prilosec launched Nexium, when the patent for Prilosec was near expiry, which was the same drug with minor changes in design and colour.’ [76]

AstraZeneca’s Prilosec was used to treat heartburn and became the most popular drug in the world. Its sales reached \$6 billion by 2000. Its patent was supposed to be over by 2001. It was stated that AstraZeneca invested a huge amount of money in the promotion of ‘Nexium’, saying that it was more applicable than ‘Prilosec’, rather than developing the next version of Prilosec. Later, clinical studies indicated that 40 mg of Nexium was being compared to 20 mg of Prilosec [77].

It was viewed that evergreening helped companies to continue their monopoly over patent drugs at the cost of selling the drugs at high prices to patients.

## Lawsuits Against Pharmaceutical Companies

As per the Centers for Disease Control and Prevention in the US, there was a link between the drugs produced by Purdue Pharma, like OxyContin, which contained oxycodone, and the death of 48,000 persons in the US in 2017. It was stated that around 400 deaths were recorded in Oklahoma due to these drugs. Pharmaceutical company Purdue Pharma faced a lawsuit accusing the company of fomenting an opioid epidemic. The company settled the lawsuit with the Oklahoma state, and an agreement for \$270 million was reached between the company and the state of Oklahoma, as per Oklahoma’s Attorney General.

Novartis AG – a Swiss company – also faced lawsuit before US courts for its fraudulent act of paying money to doctors to prescribe medicines in the US. The company reached an agreement with the state of Oklahoma for the fatal losses caused to the state [78].

It was reported that the city of Los Angeles, the USA also sued six largest pharmaceutical companies and major three distributors for recommending painkillers, through their deceptive marketing of addictive painkillers such as OxyContin resulting in nation’s opioid epidemic. The city council of Los Angeles alleged that the drug companies violated the anti-racketeering laws. As per City Attorney Mike Feuer, the companies encouraged doctors to recommend potent painkillers for lasting, long-term pain and downplayed the addictive type of the drugs. More than 350 lawsuits were filed by different US states in this regard [79].

**Mr. Ramnarayana** Professor, thank you for sharing critical information. So far, you have presented information about unethical practices within the pharmaceutical industry in general. Could you please deal with unethical practices of any pharmaceutical company?

**Professor** Mr. Ramnarayana, thank you. Now we shall discuss unethical practices by a company, GlaxoSmithKline.

## GlaxoSmithKline (GSK)

GlaxoSmithKline (GSK) – a global healthcare corporation – was initially established as a small apothecary in the eighteenth century in London. Its total revenue was 30.2 billion UK pounds in 2017, and it has 100,000 employees in more than 150 countries. The company, along with Pfizer and Shionogi, produces more than 20% of global HIV medicines. Its famous medicines include asthma inhalers, vaccines, pharmaceutical drugs and consumer healthcare products. Yet it is well known for its corrupt practices, lawsuits and unethical practices [80].

### Bribing Doctors

It was reported that GlaxoSmithKline bribed Chinese doctors to prescribe its medicines/products and was imposed mostly the biggest fine of \$492 million by courts in China. In addition, the courts also imposed imprisonment to its British executive director to China and also the Chinese employees of the company, though they didn't serve imprisonment [81].

## Sale for Unapproved Uses

GlaxoSmithKline was alleged to have sold its medicines for unproved uses and off-label uses. Labels of medicines indicate all the details about the medicines, including the appropriate age of the patient and dosage, and off-label drugs cannot be sold by pharmaceutical companies as it is dangerous. However, [GlaxoSmithKline](#) was criticised for advertising Paxil – an antidepressant – for the treatment of patients below the age of 18 years without due approval from competent authorities as the medicine is for the use of patients over 18 years of age. It was revealed that the company marketed the products through lunches, dinners and spas without proper clinical trials and without data to support its claim that the medicine is appropriate for patients under the age of 18. It also marketed off-label and uncovered uses, including for the treatment of pregnant women, of some of its medicines, such as [Lamictal](#), an anti-epileptic, and certain forms of [Zofran](#) [82].

It was also alleged that the company marketed Advair – an asthma drug for use by mild asthma patients – without proper approval from the Food and Drug

Administration for the treatment of chronic obstructive pulmonary disease with deceptive entitlements. The company also failed to provide safe information about [Avandia](#), a diabetes drug, to the Food and Drug Administration and to alert physicians about the prospective high risk for acquiring congestive heart failure and myocardial infarction. In addition, the company marketed [Wellbutrin](#) by paying doctors to promote the medicine for other uses, like weight loss, treatment for sexual dysfunction etc., though the medicine was approved for the treatment of major depressive disorder. The company paid huge amounts of money to doctors as kickbacks to prescribe its off-label medicines and Imitrex, Lotronex, Flovent and Valtrex. It was revealed that the company failed to take various contingencies in reporting low prices to the Department of Health and Human Services, the USA. This act might have helped the company in the form of underpayments to the Government and overcharging certain public health organisations for its medicines. The US Department of Justice demanded the company to pay US\$ 3 billion in criminal and civil liabilities as a consequence of the above frauds [83]. The company was alleged to have put sales above patients' health and well-being.

It was alleged that the company also didn't reveal to the Food and Drug Administration safety data concerning the heart risk posed by Avandia, as revealed by study. The product was among the bestselling medicines, so absence of disclosure exposed a lot of patients to added risks. Hence, the company paid a fine of \$243 million [84].

Furthermore, an anonymous author of an email from the United Arab Emirates, which was believed to be sent by the company's sales manager to the top management, alleged that the company was involved in direct payments to healthcare professionals, pharmacies and clinics to get business [85].

## Unethical Clinical Trials in Argentina

A report by the National Administration of Medicine, Food and Technology (ANMAT), a government agency in Argentina, stated that GlaxoSmithKline conducted clinical trials for pneumonia vaccine on 15,000 kids from poor families in public hospitals in Argentina. A lower court in the country penalised the company to the tune of US\$ 92,786 for these clinical trials [86].

## Staff Harassment and Bullying

It was alleged that the senior management of GlaxoSmithKline developed a bullying culture when they advised the company to practise ethics. Mr. Naveen Kumar – a star sales representative in the company – alleged that he was bullied by the management when he acted as a whistle blower and revealed the unethical practices of the company. He alleged that the employees had to forego part of their wages to

offer discounts to customers. He also alleged that the staff were paying for the managers' bonuses and were paying managers' children's school fees. They were punished with heavy work when they complained about these to the UK headquarters. It was reported that the managers were able to issue a charge sheet and initiate an inquiry through the human resource division. Mr. Kumar initiated a legal process [87].

**Professor** Friends, are you with me?

**Mr. Suresh** Professor, we are very much with you. We are worrying about the unethical practices in this sector as it affects the basic life of human beings and the human resources of a nation.

**Professor** That concerns very much all of us. Now I deal with another aspect, i.e. Big Pharma in the US.

## Big Pharma and the USA

The collaborative actions of global pharmaceutical industry along with its stakeholders except customers in order to get gains by exploiting the customers may be referred to as Big Pharma. According to Steve Novella, the term is used to refer to the collaborative efforts of pharmaceutical companies, regulators, NGOs, politicians, physicians etc. [88]

Some of the companies that form part of the Big Pharma family include GlaxoSmithKline, Pfizer, Eli Lilly and Company, Novartis International AG, and Johnson and Johnson [89].

It was alleged that Big pharmaceutical industry in the USA spent hard cash for lobbying the Government and regulatory bodies. A sum of US\$ 2.7 billion was spent for lobbying between 1982 and 2013 which was 42% more than the second most "Gov. Corp." bribe. It was viewed that medical industry jointly with the insurance industry in the USA designed Obamacare into law and made the health care, the costliest one in the USA. In fact, healthcare is supposed to be the basic need or public utility [90]. Therefore, It was criticised that Big Pharma in the USA is large in size to control the medical and health sector [90].

It was claimed that the corporate chain of food industries in the US, like McDonald's, Coca-Cola and Pepsi Cola, along with Big Pharma and the insurance sector, caused the people to suffer from obesity and become sick and chronically dependent on drugs.

Big Pharma was also claimed to have discouraged the use of natural healing substances and alternative traditional and natural medicines of various countries. It was further alleged that Big Pharma, with the help of its army of doctors across the world, have caused people to get addicted to medicines, though medicines have severe side effects, particularly pain killers. The use of medicines is high in the

US. Though the US population is only 5% of the world's population, they consume 80% of medicines, particularly pain killers. Medical error and preventable mistakes at hospitals are major reasons for the death of people in the US [91].

**Mr. Balu** Professor, thank you for the information. We are eager to listen to the connection of your presentation to the sayings of Lord Achyuta.

**Professor** Mr. Balu, I understand your eagerness. Let me do it now.

## Unethical Practices by Doctors, Hospitals and Pharmaceutical Companies and the Bhagavad Gita

The discussions we held so far indicate that doctors, hospitals and pharmaceutical companies are involved in unethical practices just to maximise their revenue or profits, forgetting the basic fact that such revenue was acquired at the expense of the health of people and the human resources of a nation. Doctors, owners and managers of private hospitals and pharmaceutical companies are highly educated and highly respected in society. In fact, doctors are treated as next to God in India by some people as they save lives. Most of the patients in India even touch the feet of doctors when paying them to show their gratitude for saving their lives. It is not the ignorance of doctors, management of hospitals and executives of pharmaceutical companies that caused them to practise unethical acts as these people are highly educated.

As the *Dharmataman* indicated in Verse 39, Chapter-3, of Bhagavad Gita, 'And, Arjuna, knowledge stands covered by this eternal enemy of the wise, known as desire, which is insatiable like fire'. Lord Achyuta further indicated in Verse 40 of Chapter 3: 'The senses, the mind and the intellect are declared to be its seat; covering the knowledge through these, it (desire) deludes the embodied soul.' It was viewed that the unethical doctors, managements of hospitals and pharmaceutical companies weighed their earnings/profits more than the health of the people. It is felt that medical and health practitioners and managers/executives should think more of the sanctity of their roles than their desire for material objects. These people should control their mind and direct it towards protecting the health of people in order to succeed fully in their life.

Supreme Lord Keshava indicated in Verse 36 of Chapter 6 that 'Yoga is difficult of achievement by one's whose mind is not subdued by him; however, one who has the mind under one's control and is ceaselessly striving, it can be easily attained through practice. Such is my conviction.' The professionals whose acts affect the basic life of people should not allow their mind to concentrate only on personal earnings as doing so would cause unrecoverable damage to the lives of many other people. In fact, people whose life goal is only to maximise their earnings may choose other professions than the profession whose code involves service to living beings. It is felt that once they choose the medical and health profession or the medical and health business, they should direct their mind to at least a balanced approach to money and service. Bhagawan indicated in Verse 5 of Chapter 6 that

‘One should lift oneself by one’s own efforts and should not degrade oneself; for one’s own self is one’s friend, and one’s own self is one’s enemy’. Those who fail to direct their mind towards service will do harm to the society as well as to them. At this juncture, the saying of *Dharmatman* in Verse 41 of Chapter 3 of Bhagavad Gita is appropriate. It reads: ‘Therefore, Arjuna, you must first control your senses, and then kill evil things which obstructs Jnana (Knowledge of the Absolute or Nirguna Brahma) and Vijnana (Knowledge of Sakara Brahma or manifest Divinity).’ Therefore, it would be appropriate to control lust, which paves the way for self-realisation.

Professionals as well as business people in medical and health sciences will do greatest service to the society and economy as well as greatest good to themselves by directing their mind towards a balanced approach of service to society and reasonable earning for their living rather than maximising earnings or profits just for themselves.

## Conclusion

It was felt that the unethical health care, medical education sector, research and regulatory bodies result in corruption, mismanagement and malpractices in this life saving industry. Despite taking a sacred Hippocratic Oath, some doctors were unashamedly forced to do things that were anything but life saving and life giving. All segments, including state/provincial and central/federal governments, public as well as private hospitals and hospitals run by philanthropic organisations and regulatory bodies, have a role to play in this regretful state of affairs. True there are some good and ethical doctors and officials who have tried their best to stop these malpractices against so many odds, but they could only do a precious little to save lives and costs. The atrocities mentioned above, which are only a very small portion of the reported/unreported and known/unknown incidents worldwide, leave us to wish for *Dharmatman* Lord Krishna to take another incarnation/avtar and save our nations from the corruption, rot and unethical and outrageous crimes being committed day in and day out in all industries and services. Indeed, the life-saving industry and all its segments might be neglecting the prime activity/core duty of life saving.

Ethical values are important in all businesses and industries. But they are more important in the healthcare, medical research and pharmaceutical sectors because they deal with human life. Any laxity or malpractice aimed at maximising profits at the cost of human life defeats the very purposes of this industry, that is, to save lives, protect human resources and development and, thereby, indirectly help in the economic development of the country.

Doctors, owners and managers of private hospitals and pharmaceutical companies are highly educated and respected by society. Therefore, it is not their ignorance but their greed that leads them to practise unethical acts.

As the *Dharmatman* indicated in Bhagavad Gita, doctors, executives and owners of medical, health and pharmaceutical industries should allow their mind to be free from desire by controlling their senses, thoughts and intellect and killing evil things

that obstruct knowledge and also by lifting themselves through one's own efforts, as desire/lust deludes the embodied soul, in order to maintain the sanctity of their profession/work, which weigh more than profits and to contribute to the greater good of humanity through protecting the human resource development process.

As Achyuta indicates, it would be appropriate to control greed, thus paving the way towards self-realisation. In addition, it is believed that stringent measures by way of control, supervision of regulatory bodies and enforcement of punishment will go a long way in curbing the unethical practices of educational institutions, doctors, hospitals, pharmaceutical companies and regulatory bodies. Ethical values are important in all businesses and industries, but they should be more paramount in the healthcare, medical research and pharmaceutical sectors because they contribute to human resource development and protection.

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## Chapter 7

# Ethical Dichotomy



**Professor:** Dear participants, I welcome you all to the seventh session. We have so far discussed various cases in addition to higher education sector and medical and health sector. Now, we shall discuss non-government organisations (NGOs) sector in this current session. The purpose of selecting this sector is to explain the dichotomy in following ethics or dharma in this sector. The basic aim of this sector is to render service to the most disadvantaged sections of the society. We will discuss how people resort to unethical means even in service sector and also how do NGOs sometimes face situations of ethical dichotomy.

**Mr. Balu:** Professor, I remember my case when you refer to NGOs face situations of ethical dichotomy? In fact, I faced situation of ethical dichotomy.

**Professor:** Mr. Balu, it is good. Can you present your case, if you don't mind?

**Mr. Balu:** Professor, I present my case with pleasure.

When I was around 5 years old, I lied to my mother about a fight I had with my neighbour's child. Then my mother cautioned me, 'Never Lie' by nodding her pointing finger. I nodded my head sincerely and said 'yes mummy, I will do as you say'. Subsequently, when I was 7 years old, one day, around 4.30 pm, I was going to home from school along with my friends and classmates. We were playing on the street while walking. Suddenly, I heard a voice saying that this boy 'was on the scene on that day' showing his hand towards me. 'He is my witness'.

Then I saw that side. There were around five village elders and two more people with aggrieve mood, one was short and fatty and the other one was tall. Then one of the village elders called me, 'Oh! Boy come here', showing his hand towards me. I

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Note: Meanings of verses of Bhagavad Gita are taken from Srimad Bhagavadgita, published by Gita Press Gorakhpur India, 2019, with permission from the publisher.

went close by. They asked me who are you? I introduced myself to them. They offered me a seat under the tree close by of the elders. I refused to sit saying that 'my friends are waiting for me. I have to go and play'. He said 'don't worry. We will leave you in two minutes'. I said 'OK' and told my friends 'to wait and don't go'.

Then the village elder asked me. Do you know these two gentlemen? I said yes and also said that their fields are also close by our fields. Then the village elder asked me pointing out to the short and hefty person, did you see that this person stealing the grain about a week ago from the field of another person, pointing the fingers to the tall person. I loudly said I saw not one time but three or four times. I immediately ran away to leave to play with my friends who were awaiting me eagerly.

I went home and saw my little brother who was awaiting me for babysitting. Immediately, I threw my bag into the room and started playing with my small brother. In the meanwhile, my mother prepared dinner. She served dinner and took my brother in to her fold. I was enjoying my dinner. Suddenly, I heard a loud voice threatening my mother. I was terrified and stopped my dinner abruptly and looked at my mother. My mother asked the short and fatty guy, 'what is the matter'? He shouted at my mother and threatened both of us. My little brother was also scared and started crying. My mother gave my brother to me and asked the short guy, Oh! Brother, tell me the issue, 'why are you angry with us'?

I know why he was angry. But I pretended that I didn't know anything. Then he asked my mother, 'did your son say anything to you'? My mother said 'nothing'. Then he narrated what happened and cautioned my mother saying that 'nurture your son properly'. I will not tolerate anymore. My mother told him that he is a small boy and ignorant and assured him that 'he will not repeat'. She further requested the fatty guy, 'please excuse him for this time and will not repeat this type of mistake'. 'We will take care of him'. I thought that my mother would spoke differently and defend me. I also thought that my mother will reward me as I spoke the truth as I felt. But it seemed that things took a different shape.

My mother was silent and I told my mother, 'be proud as I spoke the truth based on your instruction to me'. My mother didn't speak to me, but she was angry. I was confused of why my mother was angry when I did what she told me.

My father came home within 15 min. I jumped to him to get his support for my good acts. I told my father proudly what happened. I was observing that my father's face was becoming blue. Then my mother also narrated to my father the incident of the short and fatty guy created. My father gave me mouthful. I started weeping and silently questioned my parents that 'this is the reward I got from you for speaking the truth'. 'Then "truth" is not good'.

Then my father cooled down and took my face close to his chest and said in a nurturing mood, 'my boy, truth is good, but not in situations like this which would affect our survival'. I could not understand what my father was saying. But I slept while weeping and simultaneously thinking that I will ask my teacher tomorrow whether the 'speaking truth' is good or bad.

While I was getting ready to go to school, my father came to me and hugged me. I thought that my father was going to tell me that I was right; instead, he told me

with a low voice ‘don’t tell anything about the last night’s incident’ to anyone else. In fact, I wanted to ask ‘why’, but after observing my father’s facial expressions, I nodded my head giving him positive response. His face became bright. He told himself in a low pitch of voice ‘my son is a good boy’! My hope of clarifying with the teacher the issue of whether speaking the truth is good or bad evaporated.

I met the tall man on the street the next day morning while going to school. He called me close to him and told me ‘you are a good boy’. I asked why? He said ‘you spoke the truth yesterday’. Now I am confused further. One said I am good as I spoke the truth, and my mummy and daddy were worried yesterday for the same reason. And my daddy said speaking truth is not good in some situations. My father also took away my chance of getting clarification from my teacher.

Ultimately, I am confused!!

**Mr. Nitin:** Mr. Balu, I also faced similar cases. But I place such situations in the box of professionalism. I don’t know how does it affect ethics?

**Mr. Balu:** Mr. Nitin, let me explain my case further, so that you may find a solution even for your confused situations. Otherwise, our professor will explain.

**Professor:** Yes. Balu, you can proceed.

**Mr. Balu:** Days passed away quickly, I joined MBA program in an Institute of Management. The Lecturer of Organizational Behaviour while teaching the course clarified my doubt. He taught Id, ego and super-ego states of human beings. While explaining, he wisely differentiated the ego and super-ego states. According to him, people in ‘ego’ state can differentiate between good and bad only. But people in ‘super-ego state’ can also know the consequences of good and bad. Consequences of good can be positive and negative, and similarly consequences of bad can also be positive and negative. It does mean that both good and bad events can produce positive outcomes. According to this Lecturer, it is situational. Good act sometimes can produce negative outcome and bad act in some situations can produce positive results. Therefore, he says it is situational.

The Lecturer told an example of a saint who saved life of an innocent person from the threat of a rowdy hunter by saying diplomatically that the ‘eyes which saw can’t speak and the mouth which can speak didn’t see’, when the hunter asked him ‘did you see a person going this side’? The saint didn’t speak the truth though he knew it. It amounts to lie. But the consequence of lie is positive that he could save the life of an innocent. The Lecturer also quoted the following story from *Mahabharat*:

‘Yudhisthir is known to abide by dharma, and so Krishna convinced Yudhisthir to lie to Drona diplomatically. So Yudhisthir said, “*Ashwathama hataha.... kunjaraha*”. He spoke the word kunjaraha in a low voice which Drona didn’t hear. And since Ashwathama Hataha means Ashwathama is dead, assuming his son to be dead in the Great War, Drona collapses and seeing this as a cue, Draupadi’s brother Drushtadyumna beheads Drona’. [1]

Yudhister's 'amounted to lie', though, is a bad act on its face, and its outcome is positive as it helped to restore *dharma*.

The Lecturer aptly concluded that the outcome or result also decides whether a particular act is good or bad as stated by utilitarianism approach that states that an action is right if it aids larger number of persons. The Lecturer said that Drona's death helped to winning by Pandavas and to restore *dharma*. The Lecturer ultimately influenced me to change my life position of 'lying is bad'. It is also being determined whether it is ethical or unethical by the purpose and outcome. That purpose should be for protecting 'dharma' or to save the life of an innocent person or to save a large number of people to be ethical.

The Lecturer also explained three ego states that most of us exhibit like child ego, adult ego and parent ego. Characteristics of child ego include creative, joyful, impulsive, rebellious and dependent. Characteristics of adult ego include 'cool-headed', fair, rational, calculative, objective and compulsive, while characteristics of parent ego include order, control, critical, instructive and nurture.

The Lecturer also clarified that acts that are different from what you are supposed to deliver and/or what you promise/supposed to promise by virtue of the nature of business amount to lying and cheating. He described this state as dual ego state at the same point of time. In other words, the person/organisation in dual situation keeps one ego like parent ego within and exhibits another ego like adult ego. The transaction involving dual ego state is called 'ulterior transaction.' The Lecturer said ulterior transaction may amount to cheating.

The Lecturer further explained Johari Window Model to explain interpersonal conflict. According to Johari Window Model, there are certain aspects/things that a person knows about himself/herself and other aspects/things that are unknown to himself/herself. Similarly, a person knows certain aspects/things about another person, and as such the person doesn't know certain other aspects/things about other person. Rarely, a person knows about himself/herself as well as other's self. This type of situation is called 'open self' and it results in compatibility between two people. The situation where a person knows about other's self, but not about himself/herself, is called blind self, which is prone to interpersonal conflict. The situation that a person doesn't know about other's self, but knows about himself/herself, is called 'hidden self' which is also prone to interpersonal conflict. The situation where a person doesn't know about other's self as well as about himself/herself is called 'undiscovered self', which is a most explosive situation [2].

I completed my education and started working. My job made me to learn and practice diplomacy and professionalism. Therefore, my life position of speaking 'absolute truth' is now in question. I think the purpose should be for 'greater good' or for the welfare of the larger community or for the protection of basics in life of a person like protecting 'dharma' or 'ethics'.

I also learnt from my work experience that managing oneself based on situational requirements, though it consumes one's own mental resources, doesn't hurt others' feelings and at the same time delivers the truth in a diplomatic manner.

In addition, I learnt from my work experience that people who are involved in dual ego states not only consume most of their mental energy for managing in

between the two ego states but also hurt others' feelings and cheat them. In essence, dual ego state may result in unethical acts and fail to work in the long run.

I experienced that sometimes matching ego states or open self fails to produce positive/desirable results. Then, I started thinking from the perspective of the example of Mahabharat provided by our Lecturer that Lord Sri Krishna selected only King *Yudhistira* to speak to *Acharya Drona* that amounted to lie, but not his friend Arjuna, but used other tactics in case of *Bhishma* and other different tactics in case of King *Karna*. I could think of a new concept based on Bhagawan's two different practices in two situations. Simultaneously I keep King Duryodhana's treachery in case of getting King Shalya of Madra Kingdom into his camp. I further struggled to interweave the ego states explained by our Lecturer with these practices. What I understood is the match of purpose and ego states of two parties.

Lord Krishna was in adult ego in convincing Yudhishthira, and Yudhisithra was also in adult ego (also known as open self under Johari Window Model) in realising that his act (amounted to lying) would help in restoring dharma. The purpose of this incident was restoring *dharma* (=ethics) by fighting against those who support *adharma*. Hence, the outcome was positive. In case of Shalya, the transaction between Duryodhana and King Shalya was ulterior, and the purpose was dragging King Shalya to the side of *adharma* (= unethical) with cunning act of keeping cunning act within (adult-child) and speaking like open self (adult to adult). As such, the ultimate outcome was negative. Figure 7.1 helps to understand this concept further.

Now it is clear that the adult-adult ego states of two persons should match based on the ethical purpose to get positive or desirable outcome. Otherwise, the outcome would be negative in the long run, if not in the short run, even though there may be match between ego states of two persons. Parent ego of the leader and child ego state of the follower combination, though complementary transaction, may not produce result if the purpose is not for attaining ethics/dharma. Thus, even complementary transaction combinations like parent-child and adult-adult may not produce desirable results in the long run, if their purpose is not based on ethics.

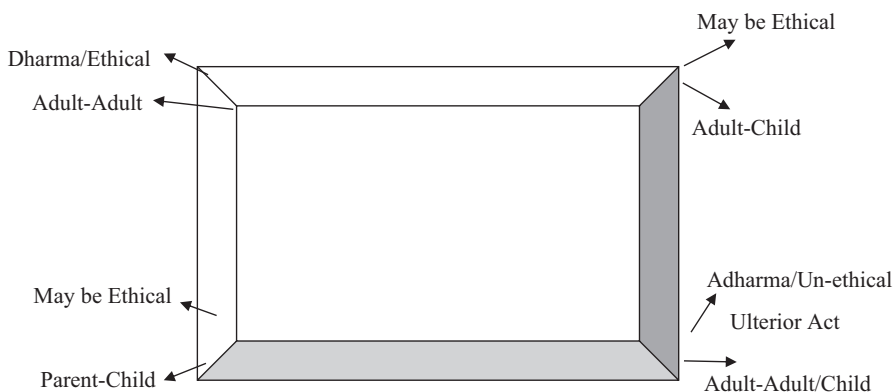


Fig. 7.1 Two dimensional approach of ego states and ethics

Therefore, I realised that appropriateness of 'lie' or 'bribery' needs to be via complementary transaction and be judged based on ethics to determine its desirability and undesirability.

**Mr. Balu:** Professor and co-participants, I completed my presentation. Thank you very much for listening to me.

**Professor:** Mr. Balu, good. It was a nice presentation with detailed analysis. At this juncture we may recall that non-government organisations (NGOs) and non-for-profit organisations are supposed to run on *dharmic* activities/on ethical principles as their missions revolve around service activities. We can now analyse the interaction among non-government organisations, donors and beneficiaries to find out the result of the activities of NGOs.

Terms 'non-government organisations' and 'non-profit organisations' are used as similar terms in this chapter. The acronym used to denote these two terms is NGOs. Purposes of most of the NGOs include the following: solve community problems like addressing environmental issues, social work, sanitation, poverty alleviation, education and health, help in self-employment and skill up gradation, human rights, political and social awareness, etc. [3]

There are various definitions of NGOs. Important among them are:

- 'A non-governmental organisation (NGO) is a legally constituted organisation created by natural or legal persons that operates independently from any government' [4].
- 'A non-governmental organisation is any non-profit, voluntary citizens' group which is organised on a local, national or international level' [5].
- 'A non-government organisation is an association which is based on the common interests of its members, individuals, or institutions have no governmental status or function, and are not created by a government, nor are its agenda set or implemented by a government' [6].
- 'Private organisations that pursue activities to relieve suffering, promote the interests of the poor, protect the environment, provide basic social services, or undertake community development' [7].

Afif summarised NGO as:

- Possesses legal status
- Does not have government engagement in establishment and administration
- Possesses from non-government organisations and departments
- Operates to serve the community without expecting any profit
- Recruits people who do voluntary work and/or those who work for remuneration [8]

Thus, basically NGOs are local/national and international legal entities that work for community needs with membership other than the government and operate based on the funds provided by members and/or donors and function on not-for-profit principles.

Activities of NGOs range from just donating funds, providing services, involving beneficiaries in the service activities and empowering the communities to take up their community development activities.

NGOs mostly depend on the funds received from various donors including governments, and governmental organisations, though some of the NGOs are financed by its members. NGOs vary in their nature and operations. Though the NGOs are primarily related to community activities, some are business friendly. In fact, some governments establish NGOs in order to qualify them to source funds from outside and help the government in solving community problems and develop societies/people. Some NGOs are established by quasi-government agencies, while some other NGOs are established by business organisations to discharge corporate social responsibilities. Some NGOs are established for the cause of environmental protection like Greenpeace. Thus, all NGOs like those established by governments and businesses are not really NGOs with separate organisation and management. These NGOs are established by parent institutions to discharge part of their activities related to the community under corporate social responsibilities. These NGOs perform part of marketing and public relations departments' functions of their parent corporate organisations concerned.

Most of the small-sized NGOs are operated, run and managed by volunteers, while the large-sized NGOs are operated, run and managed by professional employees. Governments channel funds for community/social development through NGOs and also use NGOs for providing social development, education, health, employment generation, poverty alleviation and the like as government machinery may not provide all services throughout the nook and corner of the country.

International non-government organisations (INGOs) were established before the 1920s to lead anti-slavery movement and women suffrage movement [9]. *The use of 'non-government organisations' phrase became popular with the setup of United Nations Organisation in 1945* [10]. Recent globalisation and enhanced international problems like climate change, environmental shifts, humanitarian issues, international mobilisation of human resources and emphasis on sustainable development helped in increasing the number of international non-government organisations. Prominent INGOs are World Social Forum, World Economic Forum, Greenpeace and World Vision [11].

Legal status of NGOs varies from country to country. However, they are broadly grouped as:

- **Voluntary associations** without incorporation
- **Trusts, charities and foundations**
- Non-profit organisations
- Entities founded or registered under special NGO or **non-profit** laws [12]

**Mukund:** Professor, thank you for clarifying the meanings of NGO and INGOs. NGOs render most valuable service particularly to the deprived strata of the society to the best of my knowledge. Could you please explain the best services rendered by NGOs?

**Professor:** Mukund, you are welcome. I explain.

## NGOs and Good Work

There are both positive and negative perceptions about NGO activities. NGOs render good service as perceived by about 75% of respondents of a survey conducted in 2007 by the Pew Global Attitudes Project. Another survey conducted in 2008 in Kenya shows that about 70% of respondents expressed that they had confidence in international NGOs. It was also viewed that NGOs provided valuable services in health like vaccination campaigns and family planning programmes and governance programmes like promotion of democracy, empowerment and building civil societies and human rights [13].

World NGO Day is observed on 27 February every year. It was felt that NGOs contributed significantly to solve community and social problems of mostly poor and deprived people of developing countries as governments may not be in a position to solve various social problems due to constraints of finance, technical know-how, poor education and health facilities and poor infrastructure. Notable among the successful NGOs were 'Smile Foundation' which was formed in 2002 to promote the cause of education among underprivileged children. The foundation's vision is to develop the nation through the education and livelihood of underprivileged children. Further this foundation empowers women who in turn help children's education. Another successful NGO was 'Nahi Kali' project which was brought into operation by Mr. Anand Mahindra in 1996. Each of the sponsors of this project provided financial and material support for educating one girl child each. Another successful example was 'GiveIndia Foundation' which was started by an Indian Institute of Management-Ahmedabad alumnus for the purpose of channelling financial help to the most responsible and effectively run NGOs through online and offline donations. 'Goonj' was another successful NGO which mobilises recyclable and re-usable items like clothes, books, grains, etc. from urban centres to rural areas. 'HelpAge India' was a successful NGO that influences and shapes policies relating to abandoned, poor and isolated old people [14].

There have been some successful NGOs in South Africa. These NGOs concentrate on human rights, peacemaking, cultural interchange and disaster release as well as social and economic development. The notable among them in South Africa include 'GenderLinks' which promotes gender equity and fairness through support as well as pilot projects. It had satellites in Mauritius and Botswana and projects in various African countries. 'Inyathelo' was another successful NGO in South Africa that promotes philanthropy and assists in developing capacity of other NGOs and non-profit organisations. 'Khulisa Social Solutions' in South Africa helps business organisations in discharging their corporate social responsibilities in the areas of poverty lessening, former-offender restoration, crime minimisation, victim empowerment, enterprise growth and community improvement. 'Lawyers for Human Rights NGO' provided legal service to susceptible, marginalised and needy individuals and societies to safeguard their statutory rights free of charge. 'Mothers2mothers' NGO trained HIV-positive mothers to provide counselling services to other HIV-positive mothers about prevention of spreading the virus to their newborn babies and keep them healthy. Another successful NGO in South Africa by

the name 'Mvula Trust' provided services regarding water, sanitation in rural areas, harvesting rain water, civil society, community participation, disaster management, informal settlement and integrated rural development [15].

'Symphonia', an NGO in South Africa, was initially established in 2008 as a social enterprise focused on mobilising active citizenship and took up the activities of Partners for Possibility in 2010 to help under-resourced schools by drawing resources from private sector of South Africa by developing principals of the schools as well as business leaders in leadership, strategic planning and resource mobilisation and also by meeting the challenges of teenage pregnancies, gangsterism and other social ills [16].

'Afford', an NGO in Africa, provided a variety of services in a number of African countries. Important among them include:

- Provided cheap transport services to farmers in three villages in Zimbabwe and helped them to get cheap and fast transport and better access to their produce and thereby improve their incomes
- Provided grant to female entrepreneurs in Somalia that helped them to expand their businesses and receive tax exemptions and security from the local governments, which enhanced the living standards and security of their families
- Provided training to almost illiterate women in Uganda in tailoring, hairdressing and bookkeeping and enabled them to improve their lives
- Provided food security in Kenya [17]

Save the Children provided equal education, health and nutrition to children of both genders. It provided special assistance to most deprived children during natural disasters and calamities. It changed the lives of most of the deprived children in India and around the world. It gets supports from donors [18].

'World Vision' helps the deprived communities and children by partnering and engaging with communities, governments, donors, civil societies, academia and other organisations. It provided long-term sustainable programmes as well as immediate relief during disaster and natural calamities [19].

Other successfully run NGOs include 'Salaam Bombay Foundation' that worked on challenging conditions of children of low-income and neglected communities. This NGO concentrated on school children who are prone to discontinue their studies and helps them in continuing their studies. This NGO worked like a corporate office with professionalism. 'Bharti Foundation' receives funds from Bharti Group of Companies under corporate social responsibilities under the Companies Act, India. It provided quality education to underprivileged rural children and runs Satya Bharti School programme. It contributed to increase female children education by providing special toilets for female and appointing one female teacher for each shift [20].

NGOs working for international peace include 'International Peace Bureau' which was established in 1891 with the vision of world without war through establishing peace which would result in reduction on military spending and increase spending on social welfare projects. Another NGO is 'Interpeace' which has the purpose of supporting locally led peace initiatives in various parts of the world.

Crisis Management Initiative was founded in 2000 with the purpose of prevention and resolution of conflicts through informal discussions and mediation between and among nations. 'Alliance for Conflict Transformation' was founded in 1999 with a purpose of providing innovative education, training, research and practice worldwide in order to establish peace [21].

'Global Network of Women Peacebuilders' encouraged women leadership in peace building in order to protect women and girls' rights during the process and decision-making of peace building. 'International Alert' was established to work for peaceful solutions through progress, fairness, respect, inclusion and openness.

'Nonviolent Peaceforce' was established in order to protect civilians in violent conflict situations through unarmed strategies like working with local communities. 'Peace Direct' was established with the purpose of establishing and restoring peace through the participation of local people in solving their own conflicts. Global Peace Foundation was established to create peace through shared identity, vision and aspirations. 'The Elders' was established by statesmen, peace activists and human rights advocates who are independent global leaders. They worked together for peace and human rights [22].

Thus, several NGOs worked towards their goal of rendering service to various sections of the society. The above cases clearly reveal that they were ethical in the sense that they served the beneficiaries and donors.

**Mr. Narayana:** Professor, can we assume that NGOs perform ethical activities?

**Professor:** Mr. Narayana, you posed appropriate question. I have explained one side of my presentation. But it is said that there would also be bad appeals in the same basket.

Now, I explain another side of my presentation.

## NGOs and Another Side of the Story

In fact, it was alleged that some of the NGOs were not transparent. As many as 11 out of 17 NGOs dealing with 80% humanitarian aid in France refused for confidential interview on corruption when initiated by 'Médecins du Monde'. It was felt that NGOs operating in developing countries were more corrupt. It was also viewed that most of the fraud cases in NGOs won't be reported to police in view of sensitivity, and they were not revealed to public domain. The problem of fraud was significant in the NGO sector as observed by Hauser Centre for Non-Profit Organization at Harvard University. The UK National Fraud Authority also found in 2012 fraud NGOs in England, Scotland and Wales. An article published in the *Washington Post* also highlighted the corruption and fraud in NGOs in the USA in the form of theft, investment fraud and unauthorised uses of funds. Police investigations uncovered widespread misuse of funds in 600 Greek NGOs operated overseas during 2000 and 2008 as reported in the February 2014 issue of *Economist*. *International Journal of*

*Voluntary and Nonprofit Organizations* published an exploratory study on 'Corruption in NGOs' which indicated that fraud in NGOs revolved around money motivated by greed or sexual fulfilment. KPMG Fraud survey carried out in 2011 indicated that mostly senior management is involved in corruption in NGOs. In addition, Briefcase International Non-government Organizations were on rise [23].

**Some of the examples of corrupt INGOs are** Oxfam International in Indonesia which was involved in procurement fraud worth 20,000 US dollars in 2006. Oxfam International in the UK was involved in fraud and theft, resulting in imprisonment of its former head of counter-fraud in 2014. Three of World Vision International's employees in Liberia were involved in theft of foodstuffs meant for beneficiaries from 2005 to 2007 [24].

**Most common and significant corrupt practices of INGOs include** inflated and fabricated invoices for products and services, proxy staff, participants and also beneficiaries to inflate cost of the project, kickbacks in procurement of goods and employees, double-dipping/acceptance of donations again and again for the same purpose or project and creation of fictitious NGOs with political contacts [25].

## Tricks to Attract Funds

NGOs in the past were working like social service providers with simple living like ordinary dressing, using public transportation and living in simple houses. But it was criticised that of late affiliates of politicians, elite rich people, bureaucrats and highly educated unemployed youth started NGOs as a career and profession to make quick money of higher earnings. Thus, it was felt that NGOs became as employment generating and high earning generating agencies, of course by cheating the parties at both the ends like donors and beneficiaries.

It is alleged that NGO organisers of today live a very rich life like living in costly houses, driving air-conditioned cars and meeting in star hotels. It was stated that they go to foreign countries like the UK, the USA and France, meet donors in costly hotels and make mesmerising power point presentations by showing Indian villages, women, poor people, downtrodden sections of the society and urban slums in tragic state in order to convince the donors and funding agencies to obtain liberal grants. In fact, it was reported that most of their presentations and information they provide may be of the 1960s and 1970s, but conditions in India improved a lot after the 2000s. It was alleged that they might have selected remote villages and tribal areas as models for their presentations to lure funds.

It was criticised that some of the organisers of NGOs build modern offices and design organisation structures and operate from costly offices and draw hefty salaries. They spend lion's share of funds for their salaries and living and tend to fail to achieve the mission and goals of the NGO. It was further criticised that they achieve their hidden and unwritten personal goals [26]. Thus, these modern NGOs cheat donors as well as the deemed to be beneficiaries. It was felt that this trend is genuinely dangerous to the donors, to the country as well as to the society and the NGOs.

## Accountability Issues

It was felt that income of some of the INGOs was greater than the GDP of some of the small economies. For example, World Vision's income was greater than the GDP of Burundi in 2013. Some other INGOs like Save the Children International and Action Aid influence the policies and service delivery of some countries due to the size of their funds. The size of their funds makes them less accountable to the countries they operate. This is more visible in small economies. Some studies like 'SustainAbility' and research undertaken by Global Public Policy Institute observed that INGOs were less accountable. John Entine and a survey conducted by the University of Warwick found that NGOs were not willing to be accountable. In fact, Global Accountability Project reported that NGO directors felt that NGOs were above accountability issues [27]. However, it is felt that NGOs should also be accountable to its donors as well as beneficiaries.

NGOs face conflicting accountability between the accountability norms of their donors and their own norms based on their mission, goals and regulations. Donors specify their own norms and conditions while providing funds which may be in conflict with the mission and goals of NGOs. Therefore, NGOs bring balance between the norms of the donors and their own goals. In addition, donors prefer to provide the assistance in their own localities rather than based on the acuteness of needs of other community like poverty, poor health and educational facilities, whereas the norms of NGOs emphasise on the acuteness of the community needs. NGOs were forced to align their activities with the social, emotional, political and economic interests of the donors and be accountable accordingly. It was felt that NGOs function independently based on their own mission and goals when the funds are available without any conditions imposed by donors and others like communities and government [28].

According to La Prensa of Honduras, all funds received by NGOs didn't reach the beneficiaries. It was alleged that \$12 million were drawn by NGOs from the treasury during 2010 to 2014 through Dibattista and Todos Somos Honduras foundations to carry out the contracts obtained, but these projects were not implemented [29].

## Failures in Corporate Governance

It was felt that most of the NGOs in India receive foreign donations and create disturbances to development projects in the country. The Government of India regulates acceptance and use of foreign funds received by NGOs in order to check and prohibit the activities that are detrimental to national interest through Foreign Contribution (Regulation) Act, 2010. It is a mandatory requirement that all NGOs operating in India and intending to receive foreign funding have to register under the Foreign Contribution (Regulation) Act, 2010. As per the guidelines of Home

Ministry, Government of India, registered NGOs have to submit all financial documents and annual reports within 9 months of conclusion of the corresponding financial year. They have to submit 'nil' report, if they don't receive any foreign funds [30].

'Impact of NGOs on Development', a report published by Intelligence Bureau in 2014, informed the Government of India that some NGOs receive foreign funds and plan to create hindrances to development projects. It was alleged that Greenpeace India contributed to organise protest against thermal power, nuclear power, coal and aluminium mining with the help of foreign donations, and consequently, it lost its licence with Foreign Contribution (Regulation) Act in 2015. It was alleged that other NGOs also created problems to Kudankulam Nuclear Power Plant. Consequent up on such incidents, the Government of India increased monitoring on NGOs. This monitoring resulted in decline in foreign funds received by NGOs in India from Rs. 17,773 crores in 2015–2016 to Rs. 6499 crores in 2016–2017. The government banned some NGOs which failed to submit annual returns and financial statements [31].

It was alleged by the Home Ministry that Infosys Foundation failed to submit its annual income and expenditure statements on foreign funding for up to 6 years, despite reminders. Consequently, Home Ministry cancelled the registration of Infosys Foundation. In fact, Home Ministry alleged that a number of other NGOs receiving foreign funds also failed to submit financial statements, and show cause notices were served to them [32].

## Corporate Misconduct/Misuse of Resources

It was stated that some NGOs tend to misuse resources. Mr. John Thain former CEO of Merrill Lynch & Company, USA, spent \$1.22 million to redecorate his office room when the company was incurring losses to the tune of \$27 billion in 2008 [33]. EduCap Incorporation, USA, is a multibillion dollar student loan charity. It was reported that it abused its funds by spending \$31 million to engage a private jet for family and friends and lavish perks to its CEO and her husband [34].

Surveys on NGOs' employees in the USA reveal employees' misconduct and prevalence of absence of culture of integrity [35]. National Nonprofit Ethics Survey revealed prevalence of misconduct and absence of corrective action as expressed by 40% of employees who failed to report misconduct due to the possibility of retaliation by management and peers [36]. It was revealed that executives of some non-profit organisations receive huge salaries despite the poor financial position of the respective NGO. It was reported that Mr. Paul LeClerc, CEO of New York Public Library, received huge salary despite the poor financial position of the organisation. It was stated that Mr. William Aramony, former CEO of United Way of America, used charity's funds to finance his lavish lifestyle [37].

There were cases of conflicts of interest in transactions. It was stated that employers of some NGOs had transactions with their employees. It was alleged that a

former chairman and his wife of one of the regional chapters of the Nature Conservancy Trust purchased land from the Trust valued at \$500,000 and donated \$1.6 million to the Trust and availed tax exemption under donations [38]. It was suspected in another deal that the trust received \$100,000 from SC Johnson Wax in exchange of using the Trust's logo in advertising its goods and allowed company's chairman on the Trust's board and vote [39]. It was argued that in view of such misconduct, majority of Americans expressed in response to a survey conducted by Brookings Institution in 2008 that they didn't have confidence in NGOs and their activities and they felt that NGOs waste a great deal of money [40].

## **Collaboration in Corruption Between Government and NGOs**

A study by the Asian Centre for Human Rights (ACHR) found that NGOs received more than Rs. 6654.36 crores from governments at the centre and states in India during 2002 to 2009. But it was suspected that around 97% of these NGOs failed to acquit the funds received, and at the same time the fund providers also failed to insist the submission of utilisation certificates. It was criticised that NGOs change name, if government blacklist them, in order to continue getting funds. It was also stated that these NGOs spend 15–20% of grant money to grease the hands of the granting authorities. NGOs show this amount as expenses in order to recover these funds. Thus, it was felt that government authorities and NGOs collaborate in corruption as selection was done based on networking with officials rather than technical competency of NGOs. Hence, it was argued that the accountability, compliance and transparency mostly don't find place in some NGOs. Suhas Chakma, Director, Asian Centre for Human Rights (ACHR), observed that huge scams could have taken place while excellent guidelines were in place. It was felt that this was due to paying a blind eye to these guidelines by some authorities as well as NGOs. It was also stated that it was rarest of the rare in initiating action against corrupt officials as well as NGOs even after receiving reports. Even the office of the Comptroller and Auditor General also commented that there was the chance of a big scam by NGOs as 7916 utilisation certificates were not submitted during 1981 and 2009 [41].

## **Government Funding and Corruption in NGOs**

Governments in some large countries like India may not provide particularly public utilities like education and health effectively on its own. The government may encourage NGOs to bridge the gap by providing these services as they voluntarily come forwards to supplement and complement the functioning of government machinery. Central Bureau of Investigations, India informed to the Supreme Court of India in 2015 that there were at least 31 lakh NGOs in the country which were

double the number of schools and 250 times of Government hospitals in the country. India would have been developed had these NGOs worked effectively [42]. One of the actions of the Government of India to back up NGOs was establishment of the Council for Advancement of People's Action and Rural Advancement (CAPART), by the Union Ministry of Rural Development. This organisation provided financial assistance to 7500 NGOs in rural areas to the tune of Rs. 208 crores in 2014. CAPART audited accounts of about 2000 NGOs and discovered frauds worth Rs.15 crores and decided to blacklist 564 NGOs. Most of these NGOs were micro in size, and their funding for these projects ranges between Rs. 15,000 and Rs. 20,000. CAPRAT felt that 'voluntary action is based on trust and this trust has been violated by the guilty NGOs'. Voluntary Action Network/NGOs felt that much of the funding is channelled through middlemen who took commission/bribe up to 30% of the sanctioned grant. Voluntary Agencies for Rural Development in addition to confirming the bribe by middlemen up to 30% felt that CAPRAT also deals with politicians [43].

## **Funds Diversion**

It was criticised that no correlation between amount spent between \$10 billion and \$13.4 billion for earthquake relief in Haiti and actual work done could be established [44].

It was further criticised that Red Cross planned to construct an extravagant hotel in Haiti using the unutilised money meant for relief, and the public were irritated over this issue. It was criticised that the Red Cross claimed that it provided homes for in excess of 130,000 people, but only six permanent houses were built [45].

Big NGOs receive larger amounts from government and governmental organisations like the UK Government and USAID [46].

## **Goal Conflicts and Corruption**

It is argued that some NGOs were started with own funding and also with genuine intentions, mission and goals. They also function initially as per the mission and perfectly. They expand operations and consequently recruit more employees. Soon after, their funds dry due to expanded operations and increase in number of employees. Then they start depending on foreign funding agencies, whose mission and goals are different from those of NGOs. Then the NGOs start operating based on the mission and goals of the foreign funding agencies and also start misappropriating funds by using more funds for payment of salaries to employees. Thus, it was felt that conflicting mission and goals of foreign funding agencies and NGOs make the NGOs to be corrupt [47].

## Briefcase NGOs

The experiences of goal conflict situations and their consequences in some cases along with mal-intentions gave scope to other individuals and organisations to start briefcase NGOs. It was suspected that briefcase NGOs are started with sole intention of earning quick money through corruptive practices [48]. It was felt that management of these NGOs carry all papers and documents in suitcases as they don't have any physical offices. It is suspected that these types of NGOs exist just on paper and develop attractive documentation to lure funds from foreign funding agencies that don't have any control mechanism of end-use of the funds. It was stated that these NGOs mobilise funds and use them just for the personal purpose of the promoters without carrying out any operations [49].

## Fragmenting Local Systems

Rise of NGOs in Africa was attributed to continuation of imperial relationship [50]. *It was alleged that NGOs in Mozambique* dismantled the native health schemes, ignored native regulations on health programmes and became responsible to rise in social inequality in the native communities. It was alleged that NGOs pulled health workers from their daily works in order to assist the NGOs that affected local healthcare capacity which was a permanent mechanism [51]. It was further stated that NGOs didn't care the overall system and policies of the host country and hence affected the system adversely in its sustainability [52].

## NGOs as Donor Government Agencies

It was criticised that NGOs were designed as well as used as foreign policy enforcing mechanisms of the West in developing world. In fact, Russian President Mr. Putin criticised that NGOs are under the control as they are provided finance to implement the donor's mission though they are deemed to be independent [53]. It was suspected that most of the Chinese NGOs operating in various countries were closely linked to the government as they worked as government-organised NGOs (GONGOs) [54]. Chinese NGOs were often seen as a mechanism to window-dress the Chinese's image overseas and also repair the damages done by the Chinese businesses abroad. It was felt that Chinese NGOs also created a positive environment for Chinese investments in foreign countries. In fact, it was stated that Chinese NGOs tried to repair the damages caused to local citizens due to the conflicts among owners and local interests in the Zambian copper belt and also in Sudan's Merowe Dam project [55].

It was further criticised that NGOs misinterpret scientific results to the advantage of political and commercial interests of the governments of their home country [56].

## Theft

Some people raise their eyebrows with regard to achieving vision of NGOs as the personal visions of some people in charge of NGOs differ from that of NGOs. NGO visions are mostly concerned with serving the society, whereas the personal vision of some people either working for the NGOs or managing the NGOs may be concerned to serving themselves. Some NGO employees may serve themselves by rerouting NGOs' resources meant for society to their own pockets. This may be treated as stealing of NGOs' resources.

For example, Oxfam staff members were deployed to take up rescue work in the earthquake hit Haiti in 2011. But they were involved in misconduct. Consequently, these staff members were dismissed from employment for their misconduct. However, Mr. Edward McKenzie-Green, the then head of counter-fraud, maintained his behaviour of 'erratic, unprofessional and untrustworthy'. Mr. Edward's case was referred to for disciplinary proceedings by the human resources department of Oxfam. He was offered to resign, but he refused. However, he tendered his resignation at a later stage. He was offered a golden handshake of £29,000 after he agreed that he didn't do anything 'that might constitute gross misconduct.' But, suspicious payments to two companies, between February and November 2011, were discovered by the counter-fraud department. It was also discovered that some of the outflows were channelled from Oxfam books to the accounts of McKenzie-Green's father. Mr. Edward McKenzie-Green was arrested in April 2012 for allegedly stealing from the NGO more than £64,000. Prosecutor Adam King alleged that 'Mr. Edward had demonstrated an erratic behaviour towards his work' [57].

It was also alleged that he could divert £64,612.58 through 17 bogus invoices. It was informed to the court that McKenzie-Green had been 'paranoid', experienced a failure and was admitted into a psychiatric hospital and his wife and child left him [58].

The judge in the process of conveying the judgement for imprisonment of McKenzie-Green for 2 years and 5 months indicated that McKenzie-Green used the money meant for poor people who needed it desperately, undermining the public trust in charitable organisations by being in charge of a department responsible for counter-fraud. In fact, according to Mr. Phillip Dunn, the new head of counter-fraud, Mr. Edward had damaged the reputation of the charity [59].

## Sexual Harassment

It is quite unfortunate to note that some employees of NGOs involve in sexual harassment of communities. Some employees of Oxfam were aware of rapes by some UN employees as well by some aid and charity workers in Haiti and elsewhere [60].

One of the NGO leaders in Liberia was suspected to be involved in sexual abuse scandal who was supposed to protect children from sexual exploitation between 2010 and his arrest in 2014 [61].

It was criticised that Oxfam had an experience of worst sex scandal with the involvement of some of its members including Roland Van Hauwermeiren, former director of the organisation, using funds from the organisation in Haiti and Chad. Roland Van Hauwermeiren left Oxfam and later joined 'Action Against Hunger' in Bangladesh. It was believed that consequent up on this sex scandal, the Government of Haiti suspended Oxfam's operations. It was stated that Oxfam lost thousands of regular donors and also lost the confidence of public for all the good work it has done. It was reported that Oxfam apologised to the Government of Haiti. It was suspected that some of the employees of Oxfam also involved in sex scandal in Chad. It was stated that Oxfam failed to respond properly to Quartz which was investigating the sex scandal in Chad. It was believed that Oxfam's international president was arrested in Guatemala in a corruption case. Red Cross released a statement of pre-emptive that it identified 21 employees and it sacked their services for paying for sexual services, in response to Oxfam's involvement in sexual scandal [62].

UN and host countries investigated Blue Helmets – an NGO involved in a larger number of sexual abuse cases against its employees. In view of the sexual abuse cases, it was believed that NGOs like 'Doctors Without Borders' and 'Save the Children' imposed strict controls over their employees in Honduras and Guatemala [63].

**Mrs. Sukhanaya Devi:** Professor, you have made wonderful presentation covering both ethical and unethical aspects of functioning of NGOs in different countries including corruption and sexual scandals. Could you please interrelate these unethical acts with the preaching of the *Dharmatman*?

**Professor:** Mrs. Sukhanaya Devi, thank you. I will do the same shortly. Let me proceed.

NGOs are established to serve the poor and deprived communities and solve their problems. But the information reported above indicate that some NGOs serve the managements, employees, politicians and funds sanctioning government authorities/bureaucrats through corruptive practices by using the financial resource meant for poor people. In addition to corruption, it was stated that senior-level employee of one of the NGOs involved in theft by diverting the funds from NGO to his father's account.

Corruption and theft might be owing to greed of managements, employees, politicians and fund sanctioning government authorities/bureaucrats. Greed might have resulted in diversion of NGOs' funds meant for the poor, deserved and needy to the rich and undeserved for them to become richer, thus making the purpose of funds defunct.

*Dharmatman* Sri Krishna in Verse 16 of Chapter 3 of Bhagavad Gita said to Arjuna as 'Arjuna who does not follow the wheel of creation thus set in motion in this world, i.e., does not perform his duties, leads to a sinful and sensual life, he lives

in vain'. Corrupt parties stopped the cycle of donors' sacrifice. As Bhagawan indicated, these corrupt parties may be liable to lead a life full of sin. In fact, these corrupt parties were not the owners of funds. The sin of these corrupt parties might be more severe than that mentioned by the Lord as these corrupt parties used the money of donors meant for poor people for their own senses' satisfaction.

In addition to greed, some employees of selected NGOs harassed sexually the supposed to be beneficiaries of the services of NGOs. It does mean that they couldn't control their senses even though they accepted and were engaged in more sacred service. The Supreme Personality of Godhead said in Verse 37 of Chapter 3 of Bhagavad Gita to Arjuna as 'Sri Bhagawan said: It is desire begotten of the element of Rajas, which appears as wrath; nay, it is insatiable and grossly wicked. Know this to be the enemy in this case'. As indicated earlier in Chapter 2 that lust of a person connects to the material world and that converts into wrath causes into a sin. The act of sexual harassment of NGO employees who were in sacred duty might be due to their lust which is a sinful enemy of this world and thus a great sinful act. The Lord in Verse 41 of Chapter 3 of Bhagavad Gita said as 'Therefore, Arjuna, you must first control your senses, and then kill evil things which obstructs Jnana (Knowledge of the Absolute or Nirguna Brahma) and Vijnana (Knowledge of Sakara Brahma or manifest Divinity)'. As the Bhagawan said, regulating senses would have prevented the great sinful act.

As the Dharmatman indicated in Chapter 3, Verse 20, of Bhagavad Gita that 'It is through action without attachment alone that Janaka and other wise men attained perfection. Having in view the maintenance of the world order too, you should take to action'. The employees of NGOs should have performed their own assigned duties by controlling their senses and mind.

As the Supreme Soul said in Chapter 3, Verse 42, of Bhagavad Gita, 'These senses are said to be greater than the body; but greater than the senses is the mind. Greater than the mind is intellect; and what is greater than the intellect is HE, the self'. The employees of NGOs should have utilised their intelligence which is superior to mind and senses as they were in a sacred and service profession. Had they used their intellect as Achyuta indicated, they would have prevented the sin as well as the damage to the reputation of NGOs and the beneficiaries. This would have enabled them to provide the greatest and sacred service to the poor, needy and victimised people of societies in various countries they operated.

The above cases might be revealing that they were unethical in the sense that they failed to serve the beneficiaries and cheated the donors. But it was believed that they served themselves and the corrupt officers. There is no confusion on these unethical cases. Here, un-ethics is un-ethics and there is no confusion. But there would be cases of confusion as they seem to be illegal, but need not be unethical.

**Mr. Balu:** Professor, I could understand the sequence that you are following in your presentation. I hope you are going to present some cases of confusion similar to those of mine. Am I right?

**Professor:** Mr. Balu, yes, you are right. You are following me closely. Now, we shall discuss confusing cases.

## Corruption and Humanitarian Aid: Ethical Dichotomy

Organisations hesitate to publicise the information and data of corruptive practices internally and externally as they affect credibility. This is more so in case of NGOs as it not only affects credibility but it directly affects the scope and magnitude of funds mobilisation.

Some NGOs would like to work transparently as well as ‘corruption-free’ within the organisation and between them and government departments while extending facilities to beneficiaries. But there is a possibility of failure in delivering services as the government officials may create obstacles as and when their hands are not greased. Hence, some NGOs prefer to grease the hands of government officials in the process of serving the beneficiaries particularly in most critical and unavoidable situations as the latter is their core activity. This type of situation arises mostly during wartimes and critical situations.

Ethical dichotomy arises when NGOs are forced to bribe the tax collectors and armed forces/guards at check points in order to provide humanitarian aid particularly during wars, civil conflicts and conflicts between/among countries. The dichotomy is that such bribes are viewed as good because the intention is to provide the basic needs like food, clothes and medicines to the people who are in great distress, though corruption is viewed as negative. Failure of NGOs in greasing the hands of government officials during the times of war and conflicts might result in forcing the people to suffer or even to die.

NGOs during Afghan War violated the rules imposed by Soviet-allied government in Kabul by crossing the borders through Peshawar and the North-West province of Pakistan illegally. Soviet/Afghan forces captured NGOs’ personnel. NGOs argued that their action didn’t amount to unethical practices [64].

Greasing hands in order to provide basic services by humanitarian NGOs during critical periods need not be viewed as unethical.

Participants, it resembles the situation of ‘lie by Yudhistira is not viewed as lie in the process of protecting *dharma*’.

It is felt that sometimes greasing hands is highly necessary to provide humanitarian aid. However, NGOs should be very careful in deciding when to grease hands as a number of other corruptive practices may creep in during non-critical situations. In addition, they should be transparent in the sense how the bribes affect the continuity of activities in meeting the basic and survival issues. In fact, NGOs should not forget that they are accountable particularly to donors.

Some NGOs like ‘DanChurchAid’ decided to publish corruption cases in its website and yet could enhance its budget by 25% between 2008 and 2009 [65]. This was because the NGO could get one-third of the increased budget from private donors. Increase in donations even after publicising of corruption indicates that transparency affects positively as the donors could understand the criticality of greasing the hands for the purpose of rendering the primary activity of humanitarian aid [66]. This altruism may give the confidence to the NGOs that greasing hands for rendering the basic service may not be viewed by the stakeholders particularly donors as unethical act.

The French NGOs' Forum didn't agree with the methodology of NGO Transparency Barometer developed by the Prometheus Foundation which was a team of biggest private companies in France. Médecins du Monde in 2008 approached 17 largest NGOs in France to express their perceptions and related issues including risks of corruption for its study. Six out of 17 NGOs which accepted to express their perceptions viewed that issues of corruption were part of operational challenges in the process of humanitarian aid. Transparency International recognised that corruption poses challenges to humanitarian aid on procurement, transportation and distribution of food, medicines, building material and other emergency consumables during emergencies [67].

Though corruption is widespread and common in nature in most of the countries, it may vary in degree from country to country. NGOs should have information about prevalence and degree of fraud actions in various sectors of the host nations that they are going to operate and formulate the strategies accordingly in order to serve the prospective beneficiaries effectively and efficiently. A survey reveals that 66.7% of respondents experienced corruption in accessing public services. Out of the respondents, 48% experienced bribery and nepotism in accessing health services. 'Committees Concerned Citizens' acted as watchdogs in Bangladesh and contributed to reduction of corruption significantly [68].

**Conclusion** Corruption is an ethical and political challenge and dilemma to some of the operations of NGOs dealing in humanitarian aid during war, civil unrest and natural calamities situations. In fact, corruption in developing countries is a challenge to NGOs dealing with non-humanitarian aid also, but in less degree. Corruption in non-humanitarian activities may not be critical and may not pose challenging ethical dilemma. However, NGOs may consider ethics as a primary barometer in their operations in deciding on corruption versus need for service to their prospective beneficiaries as guided by Lord Sri Krishna in the example of Yudhistira and Acharya Dhrona [69].

**Balu:** Professor, wonderful discussions. Could you please allow me to sum up?

**Professor:** Balu, good initiation. Proceed.

**Balu:** Professor and my dear executives, now I sum up the discussions of this session.

We draw four disinvite features in the discussions on NGOs. The first one is there are highly committed NGOs which stood up to their mission and needs of the deprived people of the society. These are ethical NGOs. The second category of NGOs served the needs and personal goals of the managements and employees of NGOs and government officials through corruption, bribes, funds mismanagement and diversion, favouritism, nepotism, falsification of records and other deeds for personal enrichment and fraud, leaving behind the needs of the beneficiaries. The third category served the needs/missions of the donors, leaving the missions of the NGOs behind including window-dressing the image of their home countries, and



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## Chapter 8

# Humanitarianism vs. Market Power



**Professor:** Dear Participants,

Good Morning to you all!

We had quite interesting discussions on various aspects of business ethics based on cases of your own organisations as well as cases of various companies in the previous sessions. In addition, we discussed ethics in human resource sectors like education and medical and health and in non-profit service sector, i.e. non-government organisations. Today we shall discuss ethics in retail sector as this sector is of more humanistic in the sense that it provides self-employment to large number of people and employment to large number of people compared to other sectors.

Any participant, who has some experience in this sector, can share the knowledge for the benefit of all participants.

**Mr. Narayana:** Professor, I have a clear case of my own.

**Professor:** Mr. Narayana: Good. You can narrate the case of your company.

**Mr. Narayana:** Professor and my co-participants in this programme.

My teachers in the primary school used to say that ‘I was extraordinarily intelligent’. This was corroborated by my parents many times. But, my grandfather was of the different view. He used to say that, ‘there were more extraordinarily intelligent people than I was. So never feel proud.’ I didn’t like my grandfather’s comments as well as my grandfather. But I used to like my grandmother most. I didn’t know the exact reason. Most probably, it was due to the fact that she used to give me money whenever I get my marks statement from the school in appreciation of my

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Note: Meanings of verses of Bhagavad Gita are taken from Srimad Bhagavadgita, published by Gita Press Gorakhpur India, 2019, with permission from the publisher.

achievement as well she used to snub my grandfather by saying that my 'grandson is the most intelligent boy in the country'. This inspired me further to study hard and prove that I get the best marks in the entire school.

My grandmother inspired me most when I was about to write national examination when I was in Grade 12. I got highest marks among all in the country. My grandmother's heart couldn't withstand after listening this piece of good news that I stood first in the country. This was also added to my pride, though it was considered as a piece of bad news as my friends used to say your achievement was so great that your grandmother couldn't sustain out of marvelous joy. I decided to go to the USA for my undergraduate program.

My achievements one after another boosted my pride. I joined undergraduate programme in a renowned technical institute in the USA. My pride was about to dwindle during the second semester as I experienced that students from Western countries were more intelligent and sharp than that of me. At that time a miracle happened. That is, one of the professors spoke about entrepreneurship with examples from the West and the East specifically from India. Some of the examples created inner urge in me, and then suddenly I left the studies and joined a gas station. I should say at this juncture that some factor unknown to me forced me to withdraw from studies. My inner conscious indication was that it might be due to my dwindling grades in studies. But I didn't accept my inner conscious indications.

My parents, friends and professors including the professor who championed the idea of entrepreneurship got upset when I discontinued my studies. There was a retail outlet attached to the gas station. An old Irishman was running it. I used to help him in stock verification, procurement and value addition as and when I used to find leisure time.

This old Irishman was so much impressed with my behaviour and attitude. He invited me for dinner to his flat on one Sunday. He narrated his story including his immigration to the USA, death of his loved ones, etc. I finally understood that he was alone. My sympathy towards him was increased, and I began assisting him more. I didn't know why I was doing all this.

One day this old Irishman asked me for my passport. I didn't foresee any risk, and hence I gave it to him along with my Social Security card. After a few days, he announced to me that 'I'll adopt you'. Of course this was not completely a piece of shocking news for me as I was expecting something to gain from him.

Sooner or the later, I became the sole owner of the retail outlet as the old Irishman-cum-my father kicked the bucket. I became a millionaire overnight. My family members and friends appreciated me for my luck. But I felt that it was mostly due to my intelligent decision to help the old man. Anyhow, I became rich and sold the retail outlet and returned to India with a lot of money, but, of course, without acquiring any degree. I didn't regret it.

I acquired a sick oil company in India and turned it around. It started earning profits within 5 years. The international environment also favoured my business. I implemented latest technology and management systems by hiring the best brains in human resource market. The business has grown by three times in the next 5 years. I had a lot of surplus funds, and with these funds, I acquired my close com-

petitor's business. Then I told some of my best managers only one principle, i.e. 'win over competitors by hook or crook'. Now I realised that most intelligent people like me need not strive for degrees from the top universities. My opinion is that, what businessmen without higher education do is just hire the best people from the best technical and business schools. These employees break their brains for us.

My managers worked by implementing acquisition strategies and achieved 60% of the market share. Later they used some strategies which others say that they are unethical but legal. Later, I forced my executives to implement these strategies. They said, sir these are dirty practices. For me, business is business, and I always trust my intelligence, not legal or ethical or clean. These measures helped us to gain nearly 80% of the market share. Then I was satisfied and proud of my intelligence as I built the empire and all other small firms became my followers in all respects and beyond doubt. But my company was rated as one of the unethical firms. I defended myself as I am just applying strategic management principles as suggested by my managers. Even my senior managers corroborated with me as no other organisation can pay to them the level of salaries I pay.

Again I generated huge financial resources. I started thinking of diversification strategies. Then my consultants suggested me to acquire some of the loss-making mobile companies. I immediately implemented and acquired a loss-making mobile company at a very less price by buying more than 95% of its shares. I turned it around in 2 years. Its net worth increased by two times and market price of the share increased by two-and-half times. I expanded my company's operations in various parts of the country and brought down the price of mobile services by half, and I became not only the price leader but also the market leader in the mobile industry. Again rating firms rated me as one of the unethical mobile companies. I was just doing the business based on aggressive strategies suggested by consultants and earning huge profits and also helping the customer with lowest prices in the industry. How could it be unethical? At the same time, I also paid the lowest salaries and benefits to middle- and lower-level employees and to the government as taxes. I never believed corporate social responsibility.

I again accumulated huge financial resources, and it provided me a distinctive advantage to build my empire by buying out most of my competitors' companies who were close to me in the market share. Of course, my consultants helped me in crafting strategies for forceful acquisition. Thus I killed competition virtually. My empire building strategies helped me in reformulating pricing strategies to attract customers in order to increase margins which I foresaw before. However, quality-wise my company was not the leader. My initial sacrifice, though resulted in losses sometimes, helped me in building empires in oil as well as in mobile industries and also ultimately in gaining huge profits.

**Mr. Naresh:** Mr. Narayana, I feel that you are dynamic and intelligent entrepreneur!

**Mr. Narayana:** Mr. Naresh, thank you.

I really felt proud of my intelligence, which helped me in building two empires, chasing my competitors and bringing competition to a dismal level. I am not either satisfied or contented with these two empires as I was dreaming to be like business tycoons in the country.

Later, I acquired a loss-making steel industry and turned it around within 3 years by replacing most of the existing senior employees by the fresh and young blood. In addition, I reduced employees from 2000 to 1200 and implemented latest technology. These strategies reduced human resource cost by around 50% and operational expenses by nearly 35%. These strategies particularly technology further resulted in low cost and improved delivery. Then, I gathered my strengths and energy further and started bringing competition to almost dismal level by either killing competitors or chasing them out. My company's market share increased to nearly 73%. Yet, something was making me dissatisfied, though I proudly enjoy the fruits of my intelligence.

Of late, I pumped all my reserves into the agriculture sector. I acquired thousands of acres of land from poor and marginal farmers. Sooner, these farmers became workers in my agriculture company. I was really enjoying as I could see my company's land within my vicinity and employ all the farmers who sold their land to me. I also feel proud of my intelligence in introducing new approaches in farming, using information technology in agriculture operations and in supply chain management. We have opened retail outlets in all cities and big towns and started mobile shops in small towns and big villages to market the agricultural produce. This resulted in starting a retail chain. I used the same strategies of lowest possible price to the customers, lowest salaries to employees, offering lowest price to the vendors and managing taxes to be payable to the government. My retail chain killed most of the retail shops in the unorganised sector, and consequently the owners of retail shops in unorganised sector started working in my retail company by closing their grocery shops, fancy shops, vegetable shops, etc.

Other side of the coin that indicated to me was that the farmers who sold their land to me and shopkeepers in unorganised sector who joined my company as employees lost self-respect as they were forced to work as labourers/employees in my companies. Similarly some of the small traders who lost business were forced to become vendors in our retail outlets.

**Mrs. Sukhanya Devi:** Mr. Narayana, I have a different opinion. You are not intelligent, but you are an opportunistic and inhuman.

**Mr. Narayana:** Mrs. Devi, let me complete my presentation.

**Mrs. Sukhanya Devi:** Mr. Narayana, I am sorry. Please proceed.

**Mr. Narayana:** Mrs. Devi, never mind.

However, I gained a lot of popularity due to my involvement in agriculture sector and retail sector as I provided large-scale employment, supply of food items and groceries to masses at the lowest possible prices. Presence of my company was seen in villages, towns and cities.

I completed building three empires and enjoyed lion's market share in the three industries I entered. I felt my intelligence brought me achievement satisfaction and immense pleasure. I have become old enough to retire. I handed over my business to my son, spending my time in religious activities. I was alone as my parents and wife left for heavenly abode. My son and his family were busy with their activities.

Then I started thinking of my intelligence and how it contributed to my economic, social and psychological growth. I started thinking deeply and interacting with my inner self. My memories were passing. Suddenly I had a pause at a point when I took a turn to become an employee rather than continuing my studies. I was slowly realising that I shifted as employee when I realised that my classmates from the West were more intelligent than myself. It meant that I didn't accept that I was less intelligent compared to others. I made a fast-forward of my introspection when I was realising that I was comparatively less intelligent.

Then I was thinking of my intelligence of attracting the Irish old man and becoming his adopted child. I was realising that this was not intelligence, but it is street smart or a little bit of cunning as subconsciously I knew that the Irish old man was alone. When my inner self was telling differently, I made one more fast-forward of my introspection.

Slowly, I am thinking of my intelligence of selling the retail outlet in the USA and getting the money to India and acquiring a sick oil company. Suddenly my inner conscious indicated that it was of avoiding risk in the USA as some-one may claim as the legal-heir of the Irish old man. This time also my conscious is trying to listen to my inner conscious.

I was becoming self-defensive. I told myself that building three empires was exclusively due to my intelligence. But, when I was thinking deeply, acquiring loss-making/sick units might be due to my thinking of a little bit cunning, i.e. identifying the weakness of the managements of the companies and hit on that weakness rather than having a fair deal. I made one more feedforward as my subconscious had been giving information that my conscious won't cherish.

However, my conscious had been slowly indicating that my success in all businesses was not due to my intelligence, but due to attacking on the weak areas of others/competitors. Was it intelligence or a little bit of unethical act or exploiting other's weaknesses? My conscious was in a dilemma and unable to conclude and accept.

My introspection reached to my final empires, i.e. agriculture project and retail projects. Initially I was thinking that it was due to intelligence. I also thought that I provided new opportunities to the rural India as well as shift in retail market in urban India. My inner conscious was indicating that I did everything to make money and feel proud, building empires at the cost of others. In the case of agriculture project and retail project, it was at the cost of poor farmers' and poor and unorganised traders' livelihood and self-respect and selling the goods at the least possible price by exploiting employees and vendors.

Then my conscious was slowly getting shattered and I started realising that making profit was not just due to your intelligence, but it was due to exploiting others weaknesses/opportunities created by the environment/God for others.....

So rather than helping others, did I exploit them? Did I see other's weaknesses or helplessness and exploited it? My inner conscious replied 'yes'. Is it intelligence or deceiving? My inner conscious opted for the second choice. Is it ambition or greed? My inner conscious now also opted for the second choice.

Hence, is building empires necessary by exploiting others through greediness? My inner conscious said, 'not necessarily'. Then, how?

Is it by helping others without self? Is it by humanistic rather than exploiting the situation? My inner conscious said 'yes', be ambitious rather than greed and do humane and benefit comes automatically.....

**Professor:** Mr. Narayana, I hope you have just finished.

**Mr. Narayana:** Professor, yes, you are right.

**Professor:** I feel this is a very clear case of opportunism, exploitation and greed rather than ambitious and disregard for ethics. There is no intelligence in empire creation or building here. He took advantage of the situations with pure exploitation/greed and earned huge amounts of profits at the cost of employees, competitors, poor farmers and poor and unorganised retailers and utter disregard for business values and humane and ethical principles.

Let us now see various practices followed by retail businesses in India and other countries and observe various aspects in their working.

Globalisation along with information technology strides across the globe has provided advantage to large-scale and organised industry and trading including retail trading over small-scale and unorganised industry and trading in view of economies of scale and other factors. Consequently large-scale and organised retailers expanded operations in those countries they were operating earlier and entered/strategised to enter new countries like India based on market size.

## Retail Trade in India

Retail sector plays a vital role in India's economy contributing up to 15% of GDP [1]. Indian retail sector has mostly been run by sole traders and family business people throughout the length and breadth and nooks and corners of the country based on the local socio-economic and climatic conditions including cultures. It is estimated that retail sector provides employment to nearly 8% of the total workforce particularly in rural and semiurban areas in India [2].

It was also estimated that more than 95% of retail firms are in unorganised sector. In fact, unorganised sector was playing a dominant role in retail sector in India providing employment to 7% of the people of the country and engagement to significant number of families. It was argued that unorganised retail sector provides employment to 35 million people [3], whereas it was estimated that organised retail sector provides employment to quite less number of people. Thus, it was viewed that unorganised sector was one of the largest employment providers after agriculture sector.

Traditionally retail sector in India has been run by unorganised businesses mostly by sole traders/families. It is estimated that the share of unorganised retail sector in the market size of retail business in India was 89.70% (with market size of US\$ 697.71 billion), while the share of organised sector was 10.30% (with market size of US\$79.43 billion) in 2018. However, organised retailers have been expanding their operations in the country. Market size of organised retailers augmented from US\$39.26 billion (8% in the total retail market) in 2014 to US\$79.3 billion (10% in the total retail market) in 2018 [4].

It was believed that entry of organised retailers posed threats to small retailers particularly those in urban unorganised sector, though it might have provided comparative advantages to other stakeholders like customers and vendors. This might have resulted in loss of business to small retailers and increase in unemployment for those families who depend on unorganised retail sector including traders and their family members as well as employees.

Retail trade in organised sector in India has been undergoing significant shifts including entry of domestic organised companies like Aditya Birla Fashion and Retail Ltd. (Pantaloons), Avenue Supermarts Ltd. (DMart), Future Enterprises Ltd., Future Lifestyle Fashions Ltd., Future Retail Ltd., Reliance Retail Ltd., Shoppers Stop Ltd. and Trent Ltd. (Westside) and foreign companies including online traders.

Trends were set for the entry of international organised retailers including online traders into the Indian retail market.

In fact, unorganised retailers in India formed into associations and a confederation of all India traders claim to represent millions of small retail unorganised traders in the country and organised protests in January 2020 when Mr. Jeff Bezos, CEO of Amazon, visited India and planned to invest \$5 billion in retail sector in India. The protest was against the predatory pricing of Amazon. The small retailers' association and confederation criticise that online retail giants affect them negatively. They also alleged that 'Amazon's "sinister game and evil designs"' have 'already destroyed the business of tens of thousands of small traders' in the country. But, Amazon claims that they provide employment to hundred thousands of people and business to retail traders and others on commission basis. However, it is reported that the regulator imitated investigation on the issues of predatory pricing, the exclusive launch of mobile phones, deep discounting and preferential treatment of selected sellers [5].

But it was believed to be reported by the government sources that the interests of millions of small retailers in the unorganised sector should also be protected.

## Retail Trade in the USA

Retail sector was the second largest sector in the USA in terms of firms and size of human resources in 2019. This sector in the USA generates \$3.8 trillion in sales annually. Thus, per capita sales are approximately \$11,993 [6].

It was estimated that retail consumption contributes to two-thirds of GDP in the USA. The US Bureau of Labour Statistics indicated that 15.7 million of people were employed in retail sector in the USA as of May 2015. Growth rate of retail sales was 4.5% during 1993 to 2015 in the USA. Global Powers Retailing Report, 2015, indicated that 76 of the biggest retailing houses in the world were incorporated in the USA. Walmart is the biggest retailer in the USA as well as in the world in 2019 [7].

Friends, Now, I present the case of Walmart.

## **Walmart**

Walmart is a global retail company. Sam Walton established it in 1962 and was incorporated in the USA on 31 October 1969. Walton family owns, operates and controls the company in addition to Sam's Club retail warehouses [8], a chain of supermarkets, discount departmental stores and grocery shops [9]. Fortune Global 500 rated Walmart as the world's biggest retailing firm in 2018 in terms of revenue of over US\$500 billion. Walmart employed 2.2 million people in 2018 and was regarded as the world's biggest employer. It was the biggest grocery retailer in the USA in 2019, and 65% of its sales were from its operations in the USA in 2018 [10]. Despite these credentials, Walmart has also been widely criticised for its unethical behaviour like bribing government officials in foreign countries, ignoring community interest in store locations, impacting stakeholders adversely through low price policy and inhuman human resource management. Now, we shall discuss these areas of unethical behaviour of Walmart.

## **Bribes for Obtaining Permissions in Foreign Countries**

It was widely alleged that Walmart bribed the government officials in Mexico, India, China and Brazil through proxies/middlemen to get the permits for various purposes.

Investigation reports published in *The New York Times* in April 2012 indicated that a former manager of Walmart in Mexico bribed government officials of Mexico through local fixers to procure construction permits, information, etc. that provided substantial advantage to Walmart over its competitors [11]. Walmart muted up the allegations. But, proof of bribe of US\$52,000 was revealed in the later investigations by *The New York Times* and published in December 2012 [12]. It was alleged that Walmart spent US 25 million in lobbying, otherwise known as bribing in India in 2012 [13]. In fact, Walmart has invested US\$ 99 million to investigate internally the corruptive practices in various countries like Mexico, Brazil, China and India [14].

It was criticised that Walmart earned significant amounts of profits through their operations in these countries through unethical and illegal means. The US Securities and Exchange Commission and Department of Justice conducted joint investiga-

tions and discovered the bribery acts of Walmart in these countries. It was reported that Walmart was presenting these expenses in their books of accounts as professional fee paid. It was stated that Walmart ultimately paid \$283 million to resolve a 7-year federal corruption inquiry concerning its businesses in India, Brazil, China and Mexico as US Securities and Exchange Commission accused Walmart under the Foreign Corrupt Practices Act for bribing foreign officials. The order filed by the US Securities and Exchange Commission was related to Walmart's subsidiaries worked in these countries between 2000 and 2011 with inadequate anti-corruption control measures. It was viewed that Walmart employed third parties to get permissions from government departments to get the things done through bribe. The company didn't pay adequate attention to complaints and in fact it mitigated them. According to Chief of SEC Enforcement Division's Foreign Corrupt Practices Act unit, Walmart prioritised international growth strategy and low-cost strategy over conformity to corporate governance [15].

## Issues in Store Locations

It was criticised that Walmart while constructing its stores in many countries displaced very significant and critical buildings and caused environmental damage and inconvenience to the communities. For example, construction of Walmart stores in the Charlotte Pike ([US Route 70](#)) in 1998 adversely affected home to both Native American burial grounds and a [Civil War](#) battlefield [16]. It was reported that construction of Walmart store in [Kilbuck Township](#) in 2005 resulted in demolition of [Dixmont State Hospital](#) in [Kilbuck Township](#), Pennsylvania, USA [17]. It was stated that construction of Walmart store in Mexico affected historic [Teotihuacan](#) archaeological site and [Pyramid of the Moon](#) in 2004 [18].

A documentary of 2005 indicated [Walmart as: 'The High Cost of Low Price'](#) [19].

It might be meant that it offers products at the lowest price, but costing other stakeholders like employees, community and government. The Los Angeles City Council in a study in 2003 found that the integrative contribution of Walmart was negative wherever it opened its stores [20].

**Ms. Ishani:** Professor, I learnt that Walmart offers products at low price and thus serves the society.

**Professor:** You are right partially. Let me deal with the low pricing strategy of Walmart.

**Low Pricing Policy: Adverse Consequences to Stakeholders** One of the significant competitive advantages of Walmart was its low pricing policy. It was believed that these policies helped Walmart in driving the competitors away and luring customers owing to low price. But it might have adversely affected other stakeholders like suppliers, competitors and the economy. The low pricing policy might have

negatively impacted the suppliers of Walmart as their margins were highly narrowed down. It was stated that Walmart had strong bargaining power with its suppliers and developed a policy that prices would be reduced year by year [21]. The suppliers have a risk of losing a place for their products on Walmart's shelves, if they fail to adhere to this policy [22].

It was criticised that some of the products at Walmart were poor in terms of quality and durability though their prices were low [23]. Critics of Walmart indicate that the low pricing policy of Walmart led to import of most of its merchandise from China hurting the US suppliers. In fact, Walmart was the biggest importer of products like electronics and fast-moving consumer products from China [24].

The [American Federation of Labor and the Congress of Industrial Organizations](#) stated that Walmart was the biggest importer of products in the USA and its import from China amounts to around 10% of the USA's trade deficit with China as of 2004 [25]. It was stated that Walmart's imports went up from 6% in 1984 to 60% in 2005 [26].

It was stated that some of the competitors of Walmart took the issues of low price to courts of law. For example, American Drugs, Inc., a pharmacy retailer, accused and sued Walmart in 1995 for selling medicines at little price in order to eliminate the competitors [27]. Walmart was also accused by the [Wisconsin](#) Department of Agriculture, Trade, and Consumer Protection for vending products like butter, milk and laundry detergent at low price in order to wipe out competition and gain monopolistic advantages [28]. Crest Foods also accused of predatory pricing on numerous goods filed a lawsuit against Walmart in Oklahoma [29]. It was further accused by Barry C. Lynn, a senior fellow at the [New America Foundation](#), that the low prices at Walmart resulted in shutdown of nine plants of Kraft Foods along with loss of employment of 13,500 workers [30].

It was criticised that Walmart could employ the strategy of low pricing policy due to exploitation of human resources by paying less salaries, providing poor working conditions and healthcare.

**Mr. Harishankar:** Professor, I feel that companies that offer products at low price invariably follow low-cost strategy including human resource cost. Is it the same case with Walmart?

**Professor:** You seem to be right. Let me deal with human resource issues in Walmart.

**Employment of People Issues at Walmart** People management issues at Walmart include less salaries, inferior conditions at the workplace and inferior healthcare for employees.

**Low Wages** It is quite a surprise to recall what Walmart founder Sam Walton indicated that, 'I pay low wages. I can take advantage of that. We're going to be successful, but the basis is a very low-wage, low-benefit model of employment'. [31] It is quite unfortunate to have such a policy of offering products at low price by exploit-

ing human resources. It amounts to benefitting the rich at the cost of poor people (or exploiting labour). Critics also indicate that the average yearly salary of Walmart in 2001 was \$13,861, whereas poverty line prescribed by the USA government for a family of three was \$14,360 [32]. Human Rights Watch estimated that the average wage for employees at discount store was \$ 10.24, at warehouse clubs and supercentres was \$10.55 and at grocery shops was \$11.12 in 2006, but Walmart paid an average hourly rate in that year was \$10.11 [33]. However, Walmart publicised the rise of the minimum hourly salary to \$11 for its US employees in January 2018 [34].

It was also criticised that Walmart's low wage system made its employees to depend on taxpayers' money for healthcare system. Studies conducted by the PeachCare-Subsidised Healthcare System Georgia in 2002 reported that Walmart was the biggest employer in private sector of parents of kids admitted in its programme and nearly 25% of the staff of Walmart Georgia became eligible to include their children in the Medicaid which was federal subsidised healthcare scheme [35]. University of California, Berkeley's study (2004) observed that Walmart's less salaries and benefits forced their employees to access the social safety net provided by the government [36].

## Discrimination Against Women Employees

It was criticised that Walmart distinguished against women in employment matters like wages and promotions as lawsuits were filed to corroborate such discrimination. Women employees sued Walmart against discrimination for equal employment opportunities in June 2001 [37]. Another example includes [Dukes v. Wal-Mart Stores, Inc.](#) Research findings in 2005 also indicate bias against women employees [38].

## Working Conditions

It was criticised that Walmart required the workers to perform duties off the clock, and in fact, there were lawsuits against Walmart to that effect. Walmart gave \$ 50 million to resolve a class-action case in Colorado in 2000 [39]. It was believed that Walmart accepted to give at least \$ 352 million to resolve lawsuits in 2008 [40]. It was reported that a section of employees in China organised an informal strike at Walmart stores in [Nanchang, Jiangxi Province](#), with regard to excessive working hours [41].

It was stated that Walmart designed new human resource policies in August 2006 that require employees to be ready any time during the 24 hours a day, new attendee policy and pay caps. It was criticised that employees found these policies inhuman, and, consequently, approximately 200 employees in Walmart Supercenter in [Hialeah](#)

[Gardens, Florida](#), did not accept new store policies on 16 October 2006 [42]. Walmart's internal audit carried out in July 2000 as reported by *The New York Times* found several deviations of child labour laws, laws relating to breaks and meals, minors working for long hours, etc. [43] There were instances of employment of undocumented workers in stores [44].

It was indicated that Occupational and Safety Administration of the USA cited violations in occupational and safety policy in Walmart stores in New York State, and consequently Walmart agreed to improve its safety policies in 2013. Steven Greenhouse of *The New York Times* stated in 2004 that this policy 'has created disconcerting situations, such as when a worker in Indiana suffered a heart attack, when hurricanes hit in Florida and when workers' wives have gone into labor'. [45]

## Health Insurance

Costco, rival of Walmart, provided insurance to around 85% of its workers, while Walmart provided insurance to only 44% of its employees in October 2005 [46]. Walmart spent \$3500 for healthcare per head in 2003 when the industry average was \$4800 [47]. It was reported that some employees of Walmart opt for State Insurance rather than Walmart's own health scheme. Leo Scott, Walmart's CEO, stated that 'State's benefit may be more generous than Walmart's own plan'. It was also stated that 'In some of our states, the public program may actually be a better value—with relatively high income limits to qualify, and low premiums'. [48] It was criticised that Walmart pays very less salaries and hence employees couldn't afford health insurance. It was alleged that an internal memo of Walmart served to its Board of Directors on 26 October 2005 advised to reduce healthcare expenses by 2011 through employing younger and healthy workers [49].

The Los Angeles City Council in a study in 2003 found that major retailing companies like Walmart added an additional cost of US\$9 million to State's healthcare and loss in pension and superannuation assistances that was not included by tax paid by them in the form of sales and property [50].

It was criticised that Walmart stopped health insurance facility in 2011 to the employees operating under 24 hours a week [51] and it stopped health insurance benefits for staff that employed lower than 30 hours a week. This decision might be to minimise the load of Walmart and shift it to the federal government [52].

Another incident which was reported that indicated mean-minded approach of the company was: Walmart sued to recover the finances it spent for healthcare of a staff member whose brain was injured due to a hit by a truck when she received \$470,000 a resolution from the accident later. However, the company dropped the suit due to wider criticism [53].

## Labour Relations Issues

Walmart had labour relations issues, and lawsuits include low wages, anti-union policies and practices, poor working conditions and healthcare facilities. The National Labor Relations Board in the USA indicated its concerns over Walmart's practices in November 2013 [54]. High rate of labour turnover in Walmart was attributed to poor labour relations as one of the major factors. It was stated that around 70% of staff in Walmart quit the job in the first year of their service itself [55].

Mic.com's Matt Connolly stated that, 'started in 2002 when a worker sued for unpaid wages, the case became a class action suit as other Walmart workers with similar stories joined in, culminating with a court decision ordering Walmart to pay [\\$151 million to workers](#), plus \$33.8 million in attorney's fees'. [56]

## Labour Conditions in Walmart's Vendor Organisations

Walmart was criticised of awful labour conditions in its vendor factories. Though Walmart hides the information about deplorable conditions in its supplier factories overseas, they presented a gruesome picture. Minimum monthly wage in the garment factory vendor of Walmart was \$37 in 2012. Fire accident in of Walmart's vendor factories in 2012 killed 111 people [57]. It was alleged that working hours was enormous and working conditions were deplorable in vendor factories in Bangladesh. Similar conditions were also observed in Thailand.

Harvard Law quotes a human rights study from 2006 that stated the disorders at one factory in Bangladesh: 'The children report being routinely slapped and beaten, sometimes falling down from exhaustion, forced to work 12 to 14 hours a day, even some all-night, 19-to-20-hour shifts, often 7 days a week, for wages as low as 6 ½ cents an hour. The wages were so wretchedly low that many of the child workers get up at 5:00 a.m. each morning to brush their teeth using just their finger and ashes from the fire, since they cannot afford a toothbrush or toothpaste'. Such conditions were not limited to Walmart's vendor factories. But, they contribute to the low prices of garments that Walmart sold [58].

## Staff Size vs Sales Volume

It was stated that Walmart's managers were evaluated against a yardstick of percentage of sales to cost of staff. These managers didn't have control over sales, but had control over payroll. Therefore, they used to control staff cost in order to meet the targets in terms of percentage of staff cost to sales. It was believed that this practice was against the well-accepted business principle of boosting up the sales by offering incentives and pay hike to the staff. This was because the company failed to recog-

nise the employees as human resources capable to driving the sales, even though Walmart's competitors like QuikTrip convenience stores, Mercadona and Trader Joe's supermarkets and Costco wholesale clubs were following the principles of using employees as a driver of sales through incentives and pay hikes [59].

Size of staff per store in Walmart and Sam's Club store declined from 338 in the early 2007 to 281 in April 2013. This was done initially by reducing the variety of merchandise. But the merchandise was brought back when customers didn't like the tactics of reduction of variety of merchandise. However, the staff strength was not restored [60].

## Competition to Walmart

It was noted that establishment of dollar store chain in the USA posed threat to Walmart in low-end products in terms of price. In addition, online trading or e-trading poses threat to all retail businesses including Walmart across various countries as the volume of online trading has been on increase. In fact, Amazon's market values exceeded Walmart in 2015. It was found that volume of sales in holiday season of 2015 compared to 2014 increased in case of online business, while sales of traditional retail business declined [61]. In fact, Walmart was planning to close 269 stores in 2016 due to decline in sales [62].

**Mr. Nitin:** Professor, you have presented an interesting case of Walmart. Thank you. Could you please present another example of a retail company?

**Professor:** Mr. Nitin, thank you. Now, I present Starbucks case.

## Starbucks and Ethical Issues

There has been criticism against Starbucks in terms of discrimination, stealing artwork, poor maintenance of store and workplace facilities, sexual harassment, patent infringement and unpaid overtime. Starbucks was sued by a group of 12 deaf people for refusal of service by Starbucks at Manhattan location in 2013. Starbucks was also sued for not providing sign language. Starbucks was also sued for its discrimination in offering service like [ageism](#) discrimination, [dwarf discrimination](#), [tip discrimination](#), discrimination against [a guy with half an arm](#) and [dyslexia discrimination](#). Starbucks Canada was sued in September 2015 for assigning work to a female employee with a male supervisor, even after the female employee lodged a complaint against the male supervisor for threatening her with violence and also assaulted her [63].

Starbucks was also sued by Maya Hayuk, Brooklyn artist, for stealing her art. Women employees sued Starbucks for sexual harassment in 2014 and 2015. Maxim

Integrated Products, Inc. [sued](#) Starbucks in 2012 for infringing on four of their patents. Starbucks was criticised for poor maintenance of a San Diego-area Starbucks in 2011. Starbucks didn't pay the overtime wage when it was due, but paid only after a legal battle by 356 workers [64].

It was argued that all the business organisations were not unethical. There are some ethical companies and ethical practices by most of the business organisations. Now, we will present some examples of ethical companies as well as ethical practices of other companies.

**Mr. Rohan:** Professor, are there any companies performing ethically?

**Professor:** Mr. Rohan, thank you for your inquisitive question. There are companies that practice ethics. Let me quote some of such companies and ethical practices.

## Ethical Companies

It was widely argued that Costco Wholesale Corporation is known for its ethical practices in contrast to the practices of Walmart.

## Costco Wholesale Corporation

Costco Wholesale Corporation is a global retail trading company established in the USA in 1983 [65]. Costco is the second biggest retailer in the USA next to Walmart as of 2016 [66]. Costco operates in various countries like Canada, Mexico, the UK, Japan, South Korea, Australia, Taiwan, France, Iceland, Spain, Egypt and New Zealand [67]. Costco's code of ethics include abiding by the law and caring for members, employees and suppliers [68].

It was stated that Costco's code is strictly implemented by all concerned and particularly its founders, management and employees. Costco strongly believes that achieving the mission and goals of the company is possible by implementing the code of ethics strictly throughout the organisation [69].

It was also stated that the two founders of Costco James Brotman and Jim Sinegal had laid foundation for implementation of ethics in Costco. James Brotman believes in 'help, need and self-incapacitated' and Brotman believes in 'treating the customer and the employee with utmost respect'. It is important to note that Sinegal decided to take reduced salary before his retirement to benefit the customers [70].

It was stated that Sinegal and Sol Price learned from each other that 'Jim has done a very good job in balancing the interests of the shareholders, the employees, the customers and the managers', said Price. 'Most companies tilt too much one way or the other'. Costco's business model was viewed as innovative retail model as Costco's stores include 'eye care', pharmacies and gas stations [71].

It was also mentioned that Costco was one of the model employers in the US organised retail sector with usual hourly wage of \$17 which was higher than the statutory minimum wage in the USA. In addition staff also received most of the health benefits. Consequently, a few staff members used to leave Costco [72].

It was also stated that Costco invests in training and development of its employees and provides operational autonomy to them. According to Thomas Perez, US Secretary of Labor, ‘And the remarkable loyalty that [employees] have to [Costco cofounder Jim Sinegal] is a function of the fact that he categorically rejects the notion that, “I either take care of my shareholders or my workers”. That is a false choice.’ [73]

It is thus clear that management of Costco did its business ethically by allowing the important stakeholders to have their due share in the revenue and contributed to the wheel of creation to move without much attachment to the profits.

## Other Examples of Ethical Practices

It was stated that the following companies/organisations performed ethical business activities in some areas. They include:

- Salesforce.com has been known for donation of lot of money towards education grants and offering its services at discount prices to non-profit organisations. The company inspired its staff to offer services to the society by allowing 6 days leave for this purpose.
- Ultimate Software provided 100% free healthcare to its staff and their family members. The company follows employment of women and minorities.
- NuStar Energy paid health insurance premium to all of its employees and matches 401(k) contribution up to 6%.
- SAS Institute provided Montessori Child Care facility at less cost, unlimited sick time and admission to a free health centre. SAS Institute also provided educational philanthropy in science, technology, engineering and mathematics programmes for children. It also encouraged its employees to provide social service/charitable work.
- Microsoft and its staff donated over US\$1 billion to charities and non-profit organisations annually. Company’s staff taught computer science in local schools to inspire the students towards technology industry. It paid highest salaries to its employees, liberal perks and health benefits.
- Google donated US\$1 billion to renewable energy projects. It paid highest salaries and provided employee benefits [74].

**Mr. Mukund:** Professor, please present the aspect of connecting with the sayings of the Dharmatman Lord Krishna.

**Professor:** Mr. Mukund, Let me do it now.

## Conclusion

It was criticised that Walmart indicates that it expanded its operations within and outside the USA by bullying and exploiting other stakeholders including communities, small and unorganised retailers, competitors, vendors and employees and by bribing government authorities. However, it followed the strategy of low price and in some cases low quality of products. It was believed that these acts were partly due to maximise its returns by wiping out the competitors and by causing losses to other stakeholders particularly employees and vendors. It was alleged that Walmart concentrated on its own self goals ignoring the wellbeing of others or its sacrifice towards others including employees, competitors and governments of the USA as well as other countries where it operates. At this juncture, the Lord Achyuta's saying to Arjuna is worth mentioning. Supreme Personality of Godhead in Verse-16, Chapter-3 of Bhagavad Gita said to Arjuna that 'Arjuna who does not follow the wheel of creation thus set in motion in this world, i.e. does not perform his duties, leads to a sinful and sensual life, he lives in vain'. Owners and management of Walmart should examine their policies and practices as they hurt other stakeholders and created hurdles to the flow of the wheel of creation by not paying due shares to other stakeholders like employees, competitors and vendors and by ignoring the comprehensive environment. At this juncture the *Dharmatman* rightly indicted in Verse-31, Chapter-4 of Bhagavad Gita that 'Arjuna, Yogis who enjoy the nectar that has been left over after the performance of sacrifice attain the eternal Brahma. To the man who does not offer sacrifice, even this world is not happy; how, then, can the other world be happy?'

Keshava also indicated in Verse-42, Chapter-3 of Bhagavad Gita, as 'These senses are said to be greater than the body; but greater than the senses is the mind. Greater than the mind is intellect; and what is greater than the intellect is HE, the self'. The owners and management of Walmart as indicated by the *Dharmatman* might have allowed all the stakeholders like community, competitors, vendors and employees to have their due shares in the opportunities by using their intelligence rather than concentrating on their self exclusively. Costco might have followed the right approach by using its intelligence rather than just attaching just to its profits.

**Ms. Ishanai:** Professor, I have a nagging doubt, that is, expansion of organised retailers in terms of number of branches as well as volume of business invariably affects severely unorganised and organised small retailers. Is it ethical to kill the traders of small means and also reduce the employment of those who depend on them?

**Narayana:** Professor, I also would like to ask the same question.

**Professor:** Thank you both. I was expecting such questions. I will try to clarify as it is a challenging question.

Socialistic pattern of societies or communistic societies control the concentration of economic power and are used to allow the flow of the wheel of creation. In contrast capitalism allows the concentration of economic power. Currently almost all economies in the world are capitalistic economies. As I indicated at the beginning, capitalism provides opportunities to the people either ambitious or greedy. Greedy capitalists normally don't allow the flow of wheel of creation, whereas ambitious capitalists share the returns with all stakeholders and allow the flow of wheel of creation to a great extent. In other words as the *Dharmatman* indicates, one should allow the flow of the wheel of creation in order to avert sinful and sensual life. Therefore, organised retail sector should allow the unorganised retailers and small organised retailers to sustain as it helps for the flow of wheel of creation for the wellbeing of all kinds of people. It is possible only when a retailer is ambitious rather than greedy.

In fact, this concept is applicable not only in retail sector but also in all kinds of businesses.

**Narayana:** Professor, I concur with you.

**Ishani:** Professor, thank you for your balanced approach as well as interpretation of the *Dharmatman*'s preaches. That would at least contribute to protect dharma for the greater good, rather than concentration of economic power in the hands of large organised retailers like Walmart including online retailers like Amazon.

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## Chapter 9

# Need of the Hour: Ethical Leadership



It was viewed that, traditionally, business people used to assume that profit maximisation was their basic goal and also used to practice the same thinking that value was added in the business mostly by themselves. The goal of profit maximisation probably allowed the owners to maximise their share. Consequently, all other stakeholders of the businesses were deemed to be forced to get less than their due shares in the value created and added despite their shares in contributions. But, the recent phase of globalisation along with the strides in Fourth Industrial Revolution that encompasses information technology revolution posed challenges/competitions to the business people.

Hence, business people started realising that sustainable growth should be their basic goal which provides the room for operating the business by allowing all the stakeholders to get their due shares in value created and added. In other words, businesses started thinking of operating ethically or based on the principles of *dharma*.

Ethics denote perfectness, values, morally right and good, moral duty, moral responsibility, possessing good character, righteous behaviour and what ought to be and what ought not to be done. *Dharma* in Hinduism expresses similar meaning of ethics involving the brain, mind and soul/atman. *Dharma* and ethics are judged based on situations where truth is permanent and doesn't change. Personalities of people that are moulded by the brain and mind in addition to soul/atman decide the situational requirements and the *dharmic* or ethical principles to be followed. Atman is regarded as Brahman after enlightenment. Brahman influences all living beings including humans in following *dharma* through sway atman, which may be regarded as *Dharmatman*. *Dharmatman* – the Supreme Lord – is all pervasive and ultimate in establishing, practicing and protecting *dharma*, interpreting *dharma* and directing human beings in following *dharma* or ethics.

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Note: Meanings of verses of Bhagavad Gita are taken from Srimad Bhagavadgita, published by Gita Press Gorakhpur India, 2019, with permission from the publisher.

The Lord Sri Krishna is regarded as absolute incarnation, and HE is regarded as *Dharmatman* as the Lord practiced and preached dharma through demonstration, guided people in practicing dharma, corrected the people in following dharma/path of dharma and established and restores/reestablishes dharma millennium after millennium. In fact, the Lord in Verse 8 of Chapter 4 of Srimad Bhagavad Gita declares that, 'For protection of virtuous, for the expiration of evil doers, and for establishing Dharma (righteousness) on a firm footing, I manifest myself from age to age'. Hence, Lord Sri Krishna is also called as the *Dharmatman*.

Business ethics or business dharma may be viewed as doing business perfectly, in a correct manner or morally upright manner, performing rightful and prescribed business activities as per vision and mission of the organisation, and practicing behaviours considered appropriate as per dharma/ethics.

Business ethics undoubtedly contribute to the sustainable growth of the business as various stakeholders like suppliers, market intermediaries, customers, employees and government contribute to the business and would develop trust and long-run relationship with businesses. In fact, customers tend to give business continuously when ethical principles are followed in the activities concerning them like quality, price, product upgradation and delivery. Similarly, it would be true with other stakeholders also. Therefore, ethical practices would help for sustainable growth. Thus, the basic objective of a business firm is now regarded as 'sustainable growth', not 'profit maximisation'. In fact, profit maximisation would be possible by grabbing a part of due shares of other stakeholders in the process of value addition due to greed and lust.

Most of the unethical practices as we discussed earlier were due to greed and lust. *Dharmatman* Lord Sri Krishna mentioned about greed in different situations while preaching Bhagavad Gita to Arjuna.

Physiological, social and psychological deficiencies do take the form of 'desires', and intensified desire becomes need. Intensified need becomes want/lust, and intensified lust/want becomes passion and thereby greed. Greed is a desire for endless accumulation of wealth and/or power, beyond one's own needs by grabbing a part of due shares of other stakeholders. Ambition on the other hand helps to accumulate wealth following ethical principles by allowing all stakeholders to have their due slice in the cake.

Against this background, we discussed business ethics through case studies relating to various companies and basic sectors like education, health, NGOs and retail. Major case studies covered include Satyam Computers Limited and Enron.

## **Greed and Family Attachment**

To sum up, it was alleged that Mr. Ramalinga Raju was involved in a number of irregularities including, but not limited to accounting frauds, including falsifying current account deposits, downloading the shares held by himself and his family by artificially inflating share prices, fabricating bank deposit receipts and influencing

credit rating agencies, stock exchanges and award-issuing agencies by providing false information. Mr. Raju's greediness and attachment to the family rather than to the company led to imprisonment, losing whatever he accumulated and loss to all stakeholders.

Mr. Ramalinga Raju of Satyam Computers might have failed to control his senses and mind when the profitability of the company was on rise. It was viewed that his attachment to the family's long-run wellbeing over shareholders and other stakeholders dominated his mind due to his greediness rather than contentment and being ethical. Ultimately he might have surrendered to his senses and became slave to his mind. Then greed of Mr. Raju might have dominated his mind over the wellbeing of the investors of Satyam as well as the country at large. This greed ultimately led to the disgraceful fall of Mr. Ramalinga Raju in particular including all whatever he earned, his family, investors, country's credibility, etc., in general. It was felt that global audit firm PricewaterhouseCoopers, credit rating agencies and banks played suspicious roles in this case.

While discussing about greed, one should think of life beyond this materialistic world as the end of this life is *true* and certain for everyone on one day or the other. It is also certain that everything should be detached after the death. It may be quite doubtful that to what extent the materialistic wealth we leave will be enjoyed by our next generations/descendants. I explained this already using the example of descendants of the last Mughal emperor.

*Dharmatman* clearly indicates that material pleasure has a clear beginning and end. It does mean that material pleasure is not permanent. Material pleasures of all of us will end at a certain point of time. Mr. Raju's material pleasures ended when the board of Satyam rejected his proposal. In addition, he might have undergone severe psychological agony, unrest and stress while manipulating the accounts, managing the awards and scoring points with an end of buying Maytas in mind. What did Mr. Raju earn after undergoing all kinds of turmoil? Therefore, as the *Dharmatman* indicates, one should shun all the three enemies, viz. lust, anger and greed.

We need to give up lust, greed and anger, even when we think of the current life rather than thinking of the situation after life as lust, greed and anger won't produce the results that are desirable from the overall and sustainable/long-run perspective of self, family and society. In fact the case of Mr. Ramalinga Raju may provide us a living testimony.

In fact, our over-attachment to the material world is the root cause for lust and greed.

Therefore, Lord Sri Krishna advised to regulate the senses in order to curb lust. The result of not following what the Lord indicates in the case of Mr. Raju was destroying himself, his family, the stakeholders and the credibility of the country globally.

Engagement in sacrifice, penance and charity will reduce our desire for material gains, which in turn reduces our attachment to want, lust and greed. In fact, most of the companies participate in sacrifice in the form of corporate social responsibilities. It is felt that earning money unethically and engaging in sacrifice through corporate social responsibilities like Satyam Computers are not the solution and are not

desirable and acceptable. Therefore, first business should operate ethically and then engage in sacrifice in the form of social responsibilities which would be a desirable solution from the integrated perspective of all stakeholders.

## Trustees or Tricksters

It is felt that Enron scandal is an example for failure of executives as trustees. This is a classic case of executive failure as trustees that was due to greediness and lack of ethics in personal character of executives like Mr. Kenneth, Mr. Jeffrey Skilling, Mr. Andrew Fastow and Mr. [Lou Pai](#). Important unethical practices of these executives include artificially inflating the profits, deflating the liabilities, issuing of shares to the executives based on inflated profits, artificially increasing the market price of shares and downloading the shares held by executives and the like. In addition, rating firm and audit firm Arthur Andersen failed to perform their due roles of trustees and fiduciary. Thus Andersen became part of the criminal behaviour of Enron executives and experienced the outcome of loss of business to the stage close to liquidation. It is felt that the failure is because of just selfish and jealous executives. These executives received punishments and also lost whatever they earned through unethical means due to greed.

All the deals of Enron were carried out by the approval of the corporate board. It was felt that the board was blind as it failed to investigate and obtain full details before approval. The board blindly believed Kenneth Lay and Jeffrey Skilling. The Board failed in its primary function of safeguarding the shareholders.

Mr. Kenneth – the CEO of Enron – mostly adapted laissez-faire policy in managing his subordinates. He openly emphasised on ‘making more money’ and appointed Mr. Skilling on the condition of following ‘mark-to-market accounting’. These two issues led to all kinds of window-dressing in accounts, private earnings by executives; loss to lower-level employees, shareholders and creditors; and ultimately bankruptcy of the company.

Mr. Skilling’s greed resulted in introducing accounting tricks to fabricate financial statements, issue shares to executives as incentives and inflate Enron’s share price in order to offload the stock received as incentive. He used to fire those who didn’t align with him and hire those who could align with him in window-dressing, misappropriations of financial statements and other tricks of recording unearned profits. It was believed that Mr. Skilling possessed the characteristics like arrogance and bullying which are among those mentioned as demonic characteristics by the Lord in Srimad Bhagavad Gita. Thus the fundamental personality traits of ‘greed and purpose-based bullying’ of Mr. Skilling inflated by his background of financial sector and financial models were fundamentally responsible for the decay of Enron. Enron’s executives failed to carry out the duties assigned to them as they were busy in grabbing the company’s money.

Now another question was that: Why did Enron’s accounting firm [Arthur Andersen](#) also corroborate with the actions of the senior executives? In fact, it was

stated that most of the deals that led to the collapse of Enron were carried out with the permission of Arthur Andersen. Employees of Andersen were accused of greed for high fee even though they lack the experience in auditing complex accounts of Enron involving special entities and derivatives. It was evident that Arthur Andersen compromised professional standards and accounting rules. In addition credit rating agencies also collaborated in the collapse of Enron. Anyhow, the scandals became possible only when intelligent and greedy executives of the company as well as audit firms formed into a lobby and worked as a gang.

**Failed to Act as Trustees:** Enron executives favoured themselves by causing harm to all stakeholders including their own colleagues at lower level. The gang of executives in Enron did just the opposite to the concept of 'greater good' of trusteeship.

Thus the executives of Enron who were expected to be trustees twisted the business systems from the stage of profit to the stage of loss. Consequently, charges were levied against the executives. Mr. Skilling, Mr. [Rick Causey](#) and Mr. Lay were sentenced. Thus greed and acting as the tricksters didn't help anyone, but ruined all parties including themselves and the innocent shareholders of the company.

## Mission vs. Actions

### *Nestlé*

Missions of companies provide the direction to the shareholders and management. Though the traditional objective of the businesses was either profit maximisation or wealth maximisation of shareholders, achievement of such objective would be within the scope of the mission of the business firm concerned. Therefore, the executives should achieve that objective within the direction provided by the mission of the business firm concerned.

Nestlé's mission is 'Good Food, Good Life'. Its executives' unethical acts were mostly aggressive marketing of baby formula that encouraged mothers across the world including poor countries for bottle feeding which was viewed as misleading, harmful and costly and also violating international standards, which were contrary to their prescribed duties.

Nestlé executives' unethical acts were not limited to aggressive marketing of baby formula. There were other issues like using water meant for drinking by people, food safety and forced labour issues. The executives of Nestlé were expected to earn profit for the shareholders by serving customers with quality and safe products. In other words, the prescribed duties of executives among others include providing good food to the consumers, but they performed contrary to their prescribed duties.

It was felt that though the executives of Nestlé earned profits for the company, they failed to perform prescribed duties and also failed to lead the follower executives

of their company as well as other companies. Thus, executives of Nestlé failed to attain perfection and also indirectly or directly became responsible for the failure of follower executives of their company and other companies not to attain perfection.

In fact, principle of traditional economics didn't suggest to maximise profits or wealth by indulging in unethical practices. Indeed principle of modern economics suggests 'sustainable development' is the goal of a firm. But, executives of Nestlé might have failed to understand the principle in its entirety and neglected the directions of the company's mission, vision and values. Executives of other small companies may take the executives of Nestlé as role model and may follow the unethical acts.

### *Other Cases*

It was felt that executives of Volkswagen, Chevron Corporation, Halliburton, McDonald's, WorldCom and Lehman Brothers also didn't perform prescribed duties. Instead, they might have performed activities that contributed to maximisation of shareholders' wealth without following ethical acts.

It was suspected that Anchorage used the tactics of window-dressing the financial statements in order to artificially inflate market value of shares and make money by downloading the shares held by the senior management in the case of Dick Smith, which was not their prescribed duty that led to collapse of the company. This amounted to cheating the investors.

Mr. Anton Schlecker's business model might have helped him to accumulate his wealth at the cost of lives of thousands of employees as well as business of its suppliers and landlords in the case of Schlecker's drug store. However, Schlecker's family had been in the dark. Mr. Anton experienced the result of performing non-prescribed activity.

It was believed that Lehman Brothers scandal was created with the help of the auditors. Auditors who were supposed to protect the company and management in achieving the mission might have acted otherwise by creating accounting scandals. In fact accounting scandals can't be created by the company's executives without silent or clear support from its auditors. Some of the audit firms corroborated with company executives in financial frauds as explained earlier.

It was felt that the audit firm [Deloitte & Touche](#) was involved in unethical acts like inflating promotional allowances and offering ill advice with regard to corporate bonuses. Indeed Deloitte & Touche probably practiced against its prescribed activities by its mission and values. KPMG, another audit firm, perhaps also performed activities quite opposite to the prescribed activities by its mission. The practices of another audit firm [PricewaterhouseCoopers](#) were viewed as quite contrary to its mission as well as the interest of its clients. Some of the staff of [PricewaterhouseCoopers](#) might have indulged in unethical acts by colluding with the clients.

Some companies acted against their respective prescribed activities which were supported by the auditors. These acts might have encouraged various other large companies as well as small companies to perform unethical practices. Similarly, the international audit firms might have encouraged their clients to perform activities against their companies' missions. It might have provided an opportunity to a number of small audit firms to support their clients to perform unethical activities against their respective missions.

*Dharmatman* in Verse 19 and Verse 21 of Chapter 3 of Bhagavad Gita indicated the need for and importance of performing prescribed duties. Lord also indicated that people who perform prescribed duties become role models to other people as common people follow the wise men. *Dharmatman* specifically mentioned that King Janaka attained perfection by performing prescribed duties. Lord clearly indicated that one should not perform non-prescribed duties. If a leader performs non-prescribed duties, his/her followers will also perform non-prescribed duties. Those who perform non-prescribed duties can't attain perfection. Therefore, a leader who performs non-prescribed duties can't attain perfection and also becomes the cause for non-attainment of perfection by his/her followers.

Failure to perform assigned activities by missions might have led to unethical practices. These unethical practices, though helped in the short-run to achieve personal goals of management and staff, led to the failure in achieving their missions and/or closure of the companies. Thus, failure to perform assigned activities will also result in loss to various stakeholders especially shareholders, creditors, employees and the economy in general.

Executives of these companies including audit firms failed to attain perfection like those of Nestlé. Thus, the negative standards set by the big companies might be easily followed by small companies than performing ethical acts. Thus, *Dharmatman* has clearly indicated that great/big companies should perform prescribed activities. Here the prescribed activities are those prescribed by mission of the company that is for the wellbeing and greater good of all stakeholders. Executives of major companies, therefore, should perform acts prescribed by the missions of their respective companies and never indulge in unethical acts. Hence it is felt that executives of small companies should not take unethical executives of big companies as role models as it was viewed that they failed in attaining perfection.

I summarised the cases of unethical practices based on case studies we discussed earlier. Now we, shift to sectors.

## Dualism in Human Capital Formation

I now summarise the allegations relating to unethical activities in the higher education sector. It was stated that some of the private higher educational institutions in India were virtually established by business people and 'politicians turned business

people', though the legislation requires that these institutions should be established by trusts or societies. Greed of some of the managements coupled with some of the regulators resulted in excess supply of compared to demand for management and engineering education and production of more unemployable graduates. This in turn led to closure of some engineering and management colleges and/or reduction/underutilisation of capacity of some other colleges, ultimately resulting in incurring of losses. Some of the private universities in India have also been facing similar problems of underutilisation of capacity.

One of the major criticisms against managements of private higher educational institutions in India was that they siphon off funds from the institutes illegally as private educational institutions need to be established by societies/trusts rather than under the Companies Act for profit. It was criticised that some of the private educational institutions use cost minimisation strategies including low salaries to staff, inadequate library, laboratory and other critical infrastructure facilities. Other criticisms include collection of high and variety of fee from students, window-dressing tactics during the inspections by the regulatory bodies and bribing the executives of regulatory bodies. It was quite unfortunate to note that some of the executives of regulatory bodies were corrupt and contributed to the lowering standards in higher educational institutes in India.

It was believed that unethical practices of some of the managements of private medical colleges and some executives of regulatory body led to reduction in quality of medical education owing to less equipped medical education including teaching staff and laboratory facilities/clinical material in private sector in the country. Thus, private medical education also posed challenges as well as led to decline in quality.

In fact, it was criticised that political system in the country was also responsible for the state of affairs of the higher education in the country.

Managements of some of the private higher educational institutions might have failed to achieve vision and mission of their respective institutions due to their greed and lust. In fact, education provides values and ethics in addition to technical knowledge of the course/programme concerned and thus provides directions for better living through earning.

Low quality of education damages sustainable human resource development unlike producing low quality products by manufacturing sector. Thus greed of some higher educational institutions coupled with some executives of regulatory bodies and political system in the country resulted in loss to the managements in the form of closure/underutilisation of capacity, ineffective use of country's resources and also harming human resources development process of the current and future generations in India.

It is felt that the international scenario also indicated that some of the greedy 'for-profit' private universities and colleges in the USA also faced problems of underutilisation of capacity and later closure. Further, it caused problems to students. Australian universities which attracted foreign students for making money realised that they were responsible for decline in quality of graduates. It was alleged that greed in some cases crept into even regulatory bodies turning them into corrupt bodies.

Other unethical practices of higher educational institutions in various countries include corruption in quality assurance, establishment of fake universities/institutes and issuance of fake degrees, sexually transmitted grades and cash-generated grades. In addition to managements, the lust of the staff of the institutions might also be responsible for such unethical practices.

Thus, greed/lust resulted in loss as well as spoiling the development process of human resources in their respective countries.

As indicated by Lord Sri Krishna, consciousness of some of the managements of higher educational institutes and their staff and regulators is covered by eternal enemy in the form of desire which is turned into lust. This lust is never satisfied as satisfaction of one goal leads to formation of another higher goal. This process goes on and on and burns like fire.

*Dharmatman* indicated to control the senses, mind and intelligence from the material engagement and engage in sacrifice and charity without expecting returns. Educational institutions may follow the model of providing quality education at reasonable fee without expecting abnormal profits as it is close to the teachings of Lord Sri Krishna. It is felt that educational institutions should be run by government and true philanthropists in private sector. Educational institutions in private sector would have contributed to the welfare of the society, human resource development and nation development, in addition to earning normal profits for sustainability had they followed the directions of the *Dharmatman*. In fact, education can't be considered like other businesses of producing products or rendering services on commercial basis which are more profit-oriented and less service-oriented.

## Human Consideration vs. Business Orientation

Unethical practices of some doctors and private hospitals in various countries may include intentional false diagnosis to conduct unnecessary surgeries/treatments to make money, collection of referral fee just to refer patients to another specialist doctor, imposing financial targets to doctors, abnormal pricing of services as well as medicines (particularly non-scheduled formulations) supplied by hospitals, violating the government's measures, misleading advertisements and corruption in public hospitals.

Unethical practices of some of the pharmaceutical companies may include unregulated clinical trials without compensation/appropriate compensation, influencing doctors to prescribe their products through gifts and bribes, sponsoring medical education like conferences, ghost writings and using the names of academicians as authors through payment, sponsored research and manipulating the results in its favour to influence the doctors and patients in favour of their products, charging abnormal prices, extension of the period of patents sometimes through false claims (is called as evergreening), sale of medicines for unapproved uses and staff harassment for reaching targets and unethical collaborations among pharmaceutical

companies, insurance companies, regulators, NGOs, politicians, physicians and hospitals (referred to as Big Pharma) in order to maximise revenue at the cost of patients.

Our earlier discussions indicated that some doctors, hospitals and pharmaceutical companies might have been involved in unethical practices just to maximise their revenue or profits forgetting the basic fact that such revenue was possible at the cost of basic human issues of health of people. Doctors, owners and managers of private hospitals and pharmaceutical companies are highly educated and highly respected in the society. Therefore, it was not ignorance for them to practice unethical acts.

Professionals as well as business people in medical and health sciences would have done greater service to the society as well as greater good for themselves had they diverted their mind towards a balancing approach of service to the society and earning for their living rather than maximising earnings or profits just for themselves, ignoring the human cause.

It was alleged that it was disgraceful that we have some medical and health professionals, private hospitals and pharmaceutical companies, medical education institutions and medical and research regulatory bodies which inflict corruption, looting and unchecked mismanagement and malpractices in this life-saving industry. Having taken the sacred Hippocratic Oath, some of the doctors might be unashamedly done or forced to do things, which are anything but life-saving and life-giving. Some people in all segments, like the State/provincial and central/ federal governments, public as well as private hospitals and regulatory bodies have a role to play for this regretful state of affairs. True, there were some good doctors, executives and regulators who had tried to do their best to stop these malpractices against so many odds, but they could do only a precious little to save lives and costs. The atrocities mentioned above, leave us to think that the *Dharmatman* Sri Krishna should take another incarnation/avatar to save our communities from the corruption, rot and unethical and outrageous crimes being committed day in and day out in most of the industries and services. In short, some parts of the life-saving industry and its segments might be doing everything except the core duty of life-saving.

Ethical values are important for all businesses and industries always. But they are more paramount especially for the education, healthcare, medical research and pharmaceutical sectors because they deal with human resources development and protection.

As the Lord Achyuta indicates, it would be appropriate to control lust that paves the way towards self-realisation. Stringent measures by way of control, investigation, enforcement and punishment will go a long way in curbing the wrongdoing of the educational institutions, doctors, hospitals, pharmaceutical companies, regulatory bodies and governments.

Any laxity or malpractices aimed at maximising profits at the cost of human resources defeat the very purpose of nations' development as it is invariably dependent on the level of human resource development.

## Ethical Dichotomy

Non-government organisations (NGOs) are established to serve the poor, depressed and needy communities. Some NGOs in various countries did a good job by serving the communities based on their respective missions and goals.

But information provided earlier indicates that some NGOs might have served the managements, employees, politicians and funds sanctioning authorities in governments/bureaucrats by diverting the money meant for poor people to personal accounts. Unethical practices of some of the managements and executives of NGOs may include use of tricks to lure donors and funds, use of donations for their lavish living and salaries for themselves and staff, failure to acquit funds, failure to corporate governance norms, misuse of funds, bribing the government officials, diversion of funds to personal accounts, establishment of briefcase NGOs without any office/physical location, fragmenting the national health systems, theft, sexual harassment of beneficiaries, etc.

Corruption and theft might be because of greed of managements, employees, politicians and fund sanctioning authorities/ bureaucrats. Greed might have resulted in diversion of NGOs' funds meant for the poor, deserving and needy to the rich and undeserving.

Corrupt parties might have stopped the cycle of flow of funds of donors intended for the poor and needy people. As the *Dharmatman* indicated, these corrupt parties may be liable to lead a life full of sin. In fact, these corrupt parties were not the owners of funds. The sin of these corrupt parties might be more severe as these corrupt parties used the money of donors meant for poor people for their own satisfaction.

In addition to greed, some employees of selected NGOs might have sexually harassed the supposed beneficiaries of the NGO services. It does mean that they couldn't control their senses even though they accepted and were engaged in a more sacred service. The act of sexual harassment, which is a great sinful act, of NGOs' employees which were in sacred duty was due to their lust which is a sinful enemy of this world. As the Bhagawan said, regulating senses would have prevented these great sinful acts. Then they would have prevented the sin as well as the damage to the reputation of NGOs and security of the beneficiaries. This would have enabled them to provide greater and sacred service to the poor, needy and victimised people of societies in those countries they operated.

The above issues clearly reveal that they were unethical in the sense that they failed to serve the beneficiaries and also cheated the donors. But they served themselves and the corrupt officers. There is no confusion on these unethical cases. Here unethical is unethical and there is no confusion. But there would be other cases of confusion as they seem to be illegal, but need not be unethical.

Some NGOs might have corrupted the government officials in order to get access to serve the needy/provide humanitarian aid during the war situations, and they felt that such corrupt acts need not be treated as unethical, though they were illegal.

Corruption may be an ethical and political challenge and dilemma to some of the operations of NGOs dealing with humanitarian aid during war, civil unrest and natural calamity situations. In fact, corruption in developing countries is a challenge to NGOs dealing with non-humanitarian aid also, but in less degree. Corruption in non-humanitarian activities may not be critical and may not pose challenging ethical dilemma. However, NGOs may consider ethics as a primary barometer in their operations in deciding on corruption versus need for service to their prospective beneficiaries as guided by the *Dharmatman* in the example of *Yudhisthira* and *Acharya Drona* in the epic of *Mahabharat*.

Organisations that have greased the hands of government officials to access war victims may hesitate to publicise the information and data of corruptive practices internally and externally as they affect credibility. It was perceived that this is more so in the case of NGOs as it not only affects credibility but it directly affects the scope and magnitude of fund mobilisation. But, the donors understood the corruption in greasing the hands of government officials particularly during war situations and humanitarian aid in the right perspective, and, hence, the publication of information about corruption didn't affect funds mobilisations.

We draw four distinctive features in the discussions on NGOs. The first category is that there are highly committed NGOs which stand up to their mission to serve the needs of the deprived people of the society. These are ethical NGOs. The second category of NGOs served the needs and personal goals of the managements and employees of NGOs and government officials through corruption, bribes, fund mismanagement and diversion, favouritism, nepotism, falsification of records and other deeds for personal enrichment and fraud, leaving behind the needs of the beneficiaries. The third category served the needs/missions of the donors leaving the missions of the NGOs behind including window-dressing the image of their home countries. The fourth category of NGOs faced ethical challenges and dilemma while serving the beneficiaries during wars and civil unrest. This category, though faced the challenge of the confusion of greasing hands, provided the meaning of *dharmatman/ethics* by serving the basic needs of people like refugees or providing humanitarian aid during the war periods. Thus the first and the fourth categories of NGOs are ethical whilst the second and the third categories of NGOs resort to unethical acts.

Ethical and moral standards should always be high for individuals as well as organisations and associations either in business or in service. Let us all remember this always and conduct ourselves accordingly and also ensure such high standards in our work and in our employees using our intellect more during challenging/confusing situations as the *Dharmatman* indicated in the situation of *Yudhisthira* and *Acharya Drona* in the epic of *Mahabharat*. *Dharmatman* also provided very useful direction/clue to us by trying to use the weapon (*Sudarshana Chakra*) against *Bhishma* contrary to his promise in order to protect *dharmatman*. Thus, the Lord gave us the direction that acting ethically/in *dharmic* way is superior to all other types of acts including promise.

## Humanitarianism vs. Market Power

Globalisation along with information technology revolution provided opportunities for large organised retail and online retail business in various countries based on market size like India. Entry of large organised and online retailers posed threats to small and unorganised retailers, though it provided comparative advantages to other stakeholders like customers and vendors. This resulted in loss of business to small and unorganised retailers and increase in unemployment for those who are dependent on unorganised retail sector including traders and their family members as well as employees particularly in developing countries.

It was estimated that 95% of retail business has been in unorganised sector providing employment to 7% of the people in India and engagement to significant number of families. But with the entry of organised and online retail trade sector, the share of unorganised sector started dwindling in India causing challenges to families and individuals engaged in unorganised retail sector across the country.

Retail trade is the second largest in the USA in terms of size of employees. Walmart is the biggest retailer in the USA and the world. Analysis of acts of Walmart indicates that it expanded its operations within and outside the USA by bullying and exploiting other stakeholders including communities in locating stores, small and unorganised retailers/ competitors causing threats, and employees by paying salaries less than the poverty line prescribed by the USA Government, and by providing poor working conditions and insurance facilities. This made federal subsidised healthcare scheme more attractive and dependable to some of the employees of Walmart. In addition Walmart faced the cases of discrimination against women employees, labour relations and poor working conditions in its organisations. It also faced cases of bribing government authorities in foreign countries.

However, it followed the strategy of low price and in some cases low quality of products that resulted in Walmart to be the major importer from China. These acts were partly due to maximising its returns by causing losses/inconveniences to other stakeholders including employees, vendors and government and driving away the competitors. It is viewed that Walmart concentrated on its own self-goals of profit maximisation and concentration of economic power by ignoring the wellbeing of others.

At this juncture, the Supreme Lord's direction that we have to follow is the wheel of creation that allows the flow of resources from one to another; otherwise we commit sinful actions and lead sensual and futile life.

Owners and management of Walmart should introspect their policies and practices as they hurt other stakeholders by not allowing the wheel of creation to rotate particularly in case of small-scale and unorganised competitors, suppliers and employees.

The owners and management of Walmart as indicated by the Lord should have allowed all the stakeholders like community, small retail competitors in organised and unorganised sectors, vendors and employees to have their due shares in the value created and added/opportunities rather than concentrating on their self exclusively.

Costco Wholesale Corporation was the second largest retailer in the USA. It is opined that management of Costco did its business ethically by allowing the important stakeholders to have their due share in the revenue and contributed to the wheel of creation to move without sole attachment to the profits. There were some other companies that performed ethical activities.

**Conclusion** Socialistic pattern of societies or communistic societies control the concentration of economic power. In contrast capitalism allows the concentration of economic power. Currently almost all economies in the world are capitalistic economies. As indicated at the beginning, capitalism provides opportunities to either ambitious or greedy people. Greedy capitalists normally don't allow the flow of wheel of creation, whereas ambitious capitalists share the returns with all stakeholders and allow the flow of wheel of creation to a great extent. In other words as the *Dharmatman* indicated, one should allow the flow of the wheel of creation in order to avert sinful and sensual life. Therefore, organised retail sector should allow the unorganised retailers and small organised retailers to sustain, employees and vendors to get their due slice in the cake as it helps for the flow of wheel of creation for the wellbeing of all kinds of stakeholders. It is possible only when a retailer is ambitious rather than greedy.

In fact, this concept is applicable not only in the retail sector but also in all kinds of businesses and sectors.

#### **Dear Participants,**

In fact, you are all in the leadership positions possessing power and authority. Employees of your organisations, their family members and the rest of the society follow whatever ethical principles you follow as they see you as role models. At this juncture remember what *Dharmatman* Sri Krishna indicates in Verse 21 of Chapter 3 of Bhagavad Gita. The Lord indicates as 'For whatever a great man does, that very thing other men also do; whatever standards he sets up, the generality of men follow the same'. Therefore, it is for you as leaders and executives to set trend for ethical business that prevents devastation and to pave the way for harmonious, peaceful, growing and enlightened society.

**Ishani:** Professor, thank you for your wonderful final word. Please throw some light on ethical leadership.

**Professor:** Ishani, thank you. I will do.

## Need of the Hour: Ethical leadership

Organisational leadership is creating and influencing the followers to achieve the organisational mission. Many leaders in the past influenced the followers to achieve either the organisational mission or their own missions. In fact, some leaders influenced the followers in achieving their own missions ignoring the organisational mission. This practice, in turn, inspired the followers also to craft their own missions taking the leaders as role models in corruptive practices, resulting in 'commitment, cooperation and collaboration in corruption'. Collaboration in crafting and achieving personal missions both by leaders and followers in conjunction with the regulators and financial auditors mostly led to unethical practices and business scandals which we have discussed in earlier sessions like Enron, Lehman Brothers, and Satyam Computers. Development of scandals gave fillip to the new dimension to leadership, i.e. ethical leadership. Ethical leadership creates and develops integrative and ethical followers.

Ethical leaders in addition to possessing various leadership skills should also embrace various distinctive characteristics like being honest, trustworthy and ethical in performing their roles, discharging responsibilities, carrying out activities perfectly, making and implementing decisions and dealing with all internal and external stakeholders duly and in the manner of ethics and justice. Other characteristics of ethical leaders include integrity, keeping of promises, loyalty to the professional code of ethics, fairness, due and balanced concern for all stakeholders, respect for all stakeholders, abiding by the law, commitment to excellence, leadership towards ethics and sustainability of the business organisation, good reputation, high morale and accountability to all stakeholders [1].

Ethical leaders can make ethical followers, and ethical followers can also make ethical leaders as leaders and followers influence each other, but in varying degrees. Ethical leaders and followers are free from greediness, putting organisational mission over personal mission and believe in the approach and practicing towards sustainable development. Therefore, I advise all of you to be ethical leaders, so that you can create ethical followers that pave the way towards ethical business environments in your respective organisations in particular and in the country in general.

**Mr. Nitin:** Professor, thank you very much for inspiring us as well as convincing us to be ethical leaders and to prevent business scandals.

**Professor:** Thank you Nitin.

**Mr. Mukund:** Professor, please indicate the qualities of ethical leaders, so that we will try to follow them.

**Professor:** Mr. Mukund, I will explain. Qualities of ethical leader include selflessness, putting other's interest first, value-based, being just, following one's own inner voice, following professional code of ethics, situational-orientation, rule-based, being comprehensive and integrative, diligent, accountable, considerate, consistent, able to make critical decisions involving ethical dilemma, infusing ethics as an essential ingredient in all business activities, trust based relationship, understand that ethics is beyond laws and regulations, engagement of all followers in ethical philosophy and practice, recognise positive ethical acts, belief in sustainable development [2].

In addition, as the *Dharmatman* indicates, control your senses that free you from anger, desire/want and greed, do your duties perfectly without being attached to the fruits of action as well as to yourself and family, and allow the flow of the wheel of creation/allow the flow of resources up to all level of living beings.

Further, you engage in sacrifice, penance and charity after playing your roles ethically. You should also understand that earning money unethically and engaging in sacrifice through corporate social responsibilities are undesirable and unacceptable. In fact, the *Dharmatman* indicates that one should engage in sacrifice without desiring fruitive results. It indicates that attachment to the fruitive results of sacrifice may provoke us to infuse the principle of profit even with sacrifice in our mind. Sacrifice will forego its real meaning if it is attached to the desiring fruitive results as that sacrifice would become commercial sacrifice. In fact, some businesses think of mileage (benefit/profit) even while deciding the portfolio of corporate social responsibilities. It may be viewed that sacrifice/corporate social responsibilities with attachment to fruitive results need not be regarded as sacrifice/corporate social responsibilities.

You should be the role models to other executives of your own company as well as other companies for your ethical leadership as the Lord indicated.

**Mr. Ram:** Professor, thank you very much for enlightening us particularly by interpreting the teachings of the *Dharmatman*. We will practice the ethical leadership.

**Professor:** Dear All, I am thrilled with your commitment. Let's make a beginning to infuse ethics/dharma in the business environment that would help to distribute the value created among all stakeholders duly and to achieve sustainable organisations development. This will help us to play our little roles towards protecting dharma as per the directions of the *Dharmatman* and also to contribute to ethical economics.

**Mr. Ram:** Professor, what is ethical economics? Could you please elaborate it?

**Professor:** Mr. Ram, I will do that.

## Ethical Economics

Ethical leaders and ethical followers run the organisations including political and social institutions ethically which in turn enable the employees to concentrate on their assigned duties. It does mean that people in ethical organisations would tend to be free from greed, envy, jealousy and anger. They tend to allow the free flow of the wheel of creation. Ethical organisations follow the directions of the *Dharmatman* like shunning three enemies, viz. desire, anger and greed.

Managements, executives and employees of ethical organisations may not think of any type of unethical acts and rather concentrate on assigned duties which enrich their positive energy and time that enables the organisations to maximise productivity and/or efficiency. Further, free flow of wheel of creation allows all stakeholders to get their due share which in turn results in the trickle down of the fruit of value created and added. Increased shares of all stakeholders create demand for goods and services and pave the way for enlarged production and economic activities by various sectors. This would further result in improved living standards of all stakeholders. Free flow of wheel of creation enabled by people without greed of any kind including political and social power automatically results in the trickle down of the benefits. This situation of having due share by all kinds of stakeholders in the process of value creation and addition, trickle down of benefits, increase in demand and economic activities and thereby augmented living standards of stakeholders may be termed as ethical economics. Following the directions of the *Dharmatman* Lord Sri Krishna may result in ethical economics where all people would be happy, peaceful and delightful.

Ethical leaders and followers of all sectors can make significant contribution to ethical economics by following the directions of the *Dharmatman*, so you will have an enriched role in building ethical economics which will in turn build up an ethical society.

*Achyutam, Kesavam, Ramanarayanam!*

**Mr. Ram:** Professor, thank you very much for your confidence in us.

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