

Essential issues in stakeholders' management: a critical perspective on corporate India

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ABSTRACT

This paper examines the critical issues faced by the Indian firms in their relationship with their employees (largely workmen) and it analyses the complexity and the enormity of transacting with the government, an important external and derivative stakeholder. Extant literature on stakeholders' management is yet to singularly and deeply discuss the relationship of the firm with the Government. In fact, in course of this work I failed to come across any western scholar who has recognized the government as an important external and derivative stakeholder. Moreover, the instances that are cited in the text with regard to government policy actions had captured India's collective consciousness. Indian Public Limited companies were sampled based on their proximal interface with the union government of India.

Contribution/ Originality

This paper's primary contribution is its deep qualitative examination of the complex and fragile relationships of a business with its workmen and the government (sovereign) in the construct of stakeholder's theory. In fact, the study contributes in the existing literature by treating the sovereign as a derivative stakeholder and demonstrating the imperative for a firm to manage this relationship if the business has to flourish in India.

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1. INTRODUCTION

The concept of stakeholders owes its origin to governance and public policy. In that sense, stakeholders' management is nothing new. A remarkable example of the recognition of stakeholders' management was by legendary Henry Ford at the Ford Motors. He successfully lowered the prices of his cars by achieving economies of scale at his assembly line. Thus he was able to draw more customers. At the same time, he combined this with higher wages and continually endeavoured for the well-being of his employees. In this way both employees (stakeholders) would benefit and the shareholders would receive a higher return for their investment. As a majority shareholder, Mr. Ford was the primary beneficiary of pursuing stakeholders' management as a business strategy.

In fact, [Smith \(1937\)](#) is probably the earliest recognition of stakeholder theory. He discusses the importance of customers of a business, in the external environment as an important stakeholder to the success of a firm. [Barnard \(1938\)](#) noted the contribution of employees within the internal environment of a firm, as critical to the firm's sustenance and growth. [Abrams \(1951\)](#) identifies four major factions having claims in a firm: shareholders, employees, customers and the public-including government. [Eells \(1960\)](#) expands the number of factions with claims on the effects of the business to eight. He contends that corporations are accountable to many different sectors of society" ([Eells, 1960](#)). [Preston and Post \(1975\)](#) promulgate the idea of public responsibility. However, [Freeman \(1984\)](#) has done the most complete job of representing stakeholders as internal and external actors who impact the firms actions and are affected by those actions, in turn. It was his clear and strong portrayal of stakeholders that attracted attention of management practitioners and scholars.

With the rise of Multi-National Corporations (MNC's), businesses not only earn their revenues from their home countries but also draw a substantive proportion of their income from international markets. Thus, the ability of firms to sustain their competitive advantage will depend upon their ability to forge strong and enduring relationships with various stakeholders. A global private consulting firm [Reputation Institute \(2012\)](#) ranked 100 businesses that are successfully established as strong, respectable and responsible businesses. It identifies seven dimensions of corporate reputation: financial performance, governance, citizenship, leadership and workplace - four dimensions known as *enterprise perceptions*. The remaining three dimensions like - Products, innovation and post-sales services are known as *product perceptions*. [Reputation Institute \(2012\)](#) argues that during 60 percent of times a consumer, employee, investor and the society's actions with regard to a company are motivated by their impression of the company and in the remainder 40 percent of occasions their actions are driven by their judgments of their products. Therefore, it is imperative that companies craft an image of an organization that is caring and responsible towards its stakeholders. In fact, the finest corporations perform beyond selling their merchandise; such leading businesses employ and enhance the skill sets across communities and financially support social endeavors in global and local settings.

The discussion on the stakeholders' theory and its need has acquired substantial relevance in the era of globalisation, liberalisation and deregulation. The rise of the Multinational Corporations has been a salient feature of this era. [Phillips \(2012\)](#) notes that globalization is accompanied by increasing impacts of world hunger and starvation. Over 30,000 people a day (85 percent are children under the age of five) die of malnutrition, curable diseases and starvation. The number of unnecessary deaths has exceeded 300 million people over the past 40 years.

The after-shocks and tremors of the sub-prime crisis of 2008 have enhanced unemployment levels, thrown state societal programs out of kilter and impoverished millions of people in India. Few made huge private gains at massive public losses. As employment fell and payment of wages got disrupted and so did the standard of living, worldwide and consumer expenditure on necessary and necessary goods and services plummets. This slump in the purchasing power cripples the productive system causing retrenchments, closures of units and bankruptcies. Post India's General Elections in 2014, thus far till 2018, the employment scenario has not improved discernibly. India's next general elections are slated to be held in 2019.

Thus, there is a strong need for a pragmatic and pluralistic approach to enhance the resources and capabilities of the managers to face up to the challenges. Such a method entails the language and action to demonstrate that the managers value relationships and work closely with other groups to promote their interests over time. Thus value is created for all those elements which have stakes in a business. In an era when firms are relying on committed value-chain partners (e.g., employees and a whole range of suppliers in the supply chain) to create outstanding performance and customer service, *Stakeholder theory* seems to provide managers with more resources to find success.

In India, the situation is chronic. The concept has not gained much traction among the majority of companies or their stakeholders. However, the concept has greater resonance with the gloomy outlook of Indian Economy. *The Gazette of India* (2018) aims to create regulatory Corporate Social Responsibility framework that encourages and not compel the corporate to spend on stakeholder needs through Corporate Social Responsibility. (Please Note: stakeholder theory focuses primarily on the actors in the environment, and less directly on the process of corporate-social engagement. Additionally, CSR conceptualizations have often been prescriptive while stakeholder theory is descriptive.) Progressive legislation is framed with regard to the role of Independent directors, to orient the board of directors with their moral obligations to the various stakeholder constituencies. It is hoped that with the passage of time, not only will the government enact legislations and enabling environment that will nudge the corporations, the corporations too will work in the interests of the stakeholders and promote equitable treatment of the stakeholder factions.

2. LITERATURE REVIEW

Stakeholder Theory lacks objectivity to assess business decisions.

There is no unified and rigid concept of ‘stakeholders’. *Key* (1999) critiqued that stakeholder theory is a vacuous concept. The abstract nature of the discourse on stakeholders’ management, to a substantive degree, is due to its conceptual breadth. Such breadth of interpretation is also one of its prominent theoretical drawbacks. *Phillips et al.* (2003) elaborates this point^{1&2}. Its application is, thus, severely constrained. The evaluation of the performance of stakeholders’ management is difficult. In addition, critics argue that stakeholder theory does not offer a basis or framework for any meaningful and practicable assessment of business decisions³ and hence it is not illuminatingly action-guiding (*Marcoux, 2000*).

Besides, an instrumental approach points to some deficiencies existing in the corporate governance and structural changes needed to mitigate the inadequacies should the business decide pursue a Stakeholder Theory.

I expect the role of the stakeholders to be of greater importance in the Indian business environment. *Pigé* (2002) cites that the board of governors would need to deploy use more diversified mechanisms, to monitor and control, that the main decisions of the CEO and top executive managers are not only in the best interests of the shareholders but also consistent to those of the other stakeholders to hold the coalition of heterogeneous interests: the Firm. Furthermore, he feels that the collection of variegated information to assess the consequences and efficacy of managerial decision making will be a formidable task for the Board. He points out that most of the information available for the Board is extracted from analysis of the financial statements. Such information is of little use to evaluate

¹ Business Ethics Quarterly 13(4): “Such breadth of interpretations though one of the stakeholders’ theory’s greatest strengths, is also one of its prominent theory liabilities.” [pp -478]

² Ibid. “The wide – ranging intuitive appeal of stakeholder theory has led a number of scholars and commentators to stretch the theory beyond its proper scope rendering it more susceptible to criticism and distortion.” [pp-482]

³ “In rejecting the maximization of long-term owner value as the purpose of business, and requiring business instead simply to ‘balance’ the interests of all stakeholders, stakeholder theory discards the objective basis for evaluating business action” (*Sternberg, 2000*)

performance with regard to non-equity owner stakeholders. Hence, new indicators are needed to appraise the real performance of the CEO and top executive managers.

In this context, [Pigé \(2002\)](#) offers the framework to collate appropriate indicators. He adduces, [Wong and Weiner's \(1981\)](#) suggestion that performance appraisal needs assaying as to whether the problem lies in the person or the situation. It advocates that the Board should, conduct both managerial⁴ and environmental⁵ assessments, in consonance with [Walsh and Seward, \(1990\)](#)⁶. Thereon, he stresses on the imperative to design a comprehensive and fair reporting and management control system to the board. [Pigé \(2002\)](#) indicates the suitability of the Balanced Score Card Approach and at the same time acknowledges the limitations of this method ([Kaplan and Norton, 1992, 1993, 1996](#)).

Several managers have asked whether or not the balanced scorecard is applicable to external reporting. If the scorecard is indeed a driver of long-term performance, shouldn't this information be relevant to the investment community?

Stakeholder Theory aids managerial opportunism: the Agency Problem.

The criticism rests on two prongs: the moral and legal argument of Agency Problem and its purported consequence of managerial opportunism. [Sternberg \(1998\)](#) cites the Agency problem: the fallouts of the separation of risk-bearing (ownership) and decision making (control) as the scourge of corporate governance⁷. The original moral argument was propounded by Milton Friedman. The shareholders own the firm by virtue of owning equity shares. Besides, they seek to maximize the value of their shares.

In the existing literature, some critics have argued that stakeholder theory provides self-serving managers with the opportunity to act in self-interest to the point of enriching themselves by claiming that the actions would benefit or more stake or stakeholder in particular. [Phillips et al. \(2003\)](#) have chronicled three prominent critics ([Jensen, 2001](#); [Marcoux, 2000](#); and [Sternberg, 2000](#)) who stress on the prevalence of undue enrichment.

In the construct of the agency problem, [Marcoux \(2000\)](#) argues that since the managerial behavior is self-serving it will certainly foster the interests of select stakeholder groups and work against the interests of the remainder constituencies.

[Sternberg \(2000\)](#) strongly criticizes the lack of focus in the tenets of the stakeholder theory. The study argues that in the quest to content all constituencies, the organization's efforts are stretched so thin that organization performs abysmally and ends up satisfying none. Consequently, business accountability breaks up.

⁴ [Pige \(2002\)](#) asserts that "we might consider that the first quality of a top manager is to control his firm. That means, he must have not only to take the good decisions but he must also have the good information and his decisions ought to be implemented."

⁵ Environmental assessment involves examination of the market structure: monopoly or oligopoly to highly competitive and business cycles of boom or bust.

⁶ According to [Walsh and Seward \(1990\)](#), the performance appraisal should include:

- The managerial assessment: "the board of directors needs to assess both the ability and efforts of the top managers of their organization" (p.424).
- The environmental Assessment: "administrative scientists have spent years trying to determine the extent to which strategic choice or environmental determinism shape organizational performance. ... This leaves the board with the unenviable task of determining such an attribution of responsibility. ... In fairness, the board should strive not to penalize managers for outcomes truly outside of their control" (p.424)

⁷ [Sternberg \(1998\)](#) professes that the solution warrants the agent (managers) to act exclusively in the interest of its principal (the shareholders). The salient interest (here) is assumed to be solely wealth maximization.

Phillips *et al.* (2003), however, controvert these criticisms in the following ways: First, precedents abound that undue enrichment has occurred in the pretext of maximization of shareholders' wealth. Episodes at Enron, WorldCom and Sunbeam Corporation⁸ & ⁹ attest to this defence of stakeholder theory. They write "There is little reason to believe that Stakeholder theory will provide any more or less justification for the opportunistic manager." Second, they refer to the "stakeholder-agency" theory by Hill and Jones (1992) to argue that vested interests of managers underlying their actions can be in outright conflict not only with those of the shareholders but also contrary to the interests of the stakeholders.¹⁰ Third, they argue, that, from a normative point of view, being accountable to a multitude of stakes will only improve transparency rather than abet managerial opportunism. This assumption is based on the assumption that various stakeholders will monitor management as well as one another's actions that can potentially impact them adversely.¹¹

On the issue of 'The agency problem', cited by Sternberg (1998), Phillips *et al.* (2003) argue that the corporation is a legal fiction like that of an artificial person distinct from the identity of its shareholders¹². Top managers are agents or fiduciaries to the corporation and not to the shareholders¹³.

Upon a perusal of the above cited stakeholder theory, I am of the opinion that stakeholder theory, from a normative perspective does not justify or promote managerial opportunism. From an empirical point of view however, it still represents a challenge to stakeholder management.¹⁴

Stakeholder Management: Equitable treatment of all the stakeholders.

From our discussions in preceding paragraphs, we understand stakeholders' management to 'balance' the diverse stakeholder interests, apparently at loggerheads to one another¹⁵. Freeman *et al.* (2004) cite that "There are, of course, conflicts among stakeholders but these conflicts must be resolved so that stakeholders do not exit the deal- or worse-use the political process to appropriate value for themselves or regulate the value created for others".

It is interesting to note that, scholars are not unanimous about their understanding of balance. It is very tempting to believe that 'balancing' implies 'equality', as understood in common parlance. Robert

⁸ Dethroned king of shareholder wealth Dunlap (1996) grossly mismanaged at Sunbeam Corporation to his own significant financial gain. And every move he made was in the name of shareholder wealth. See Albert J. Dunlap, *Mean Business*, (New York: Simon & Schuster); John A. Byrne, *Chainsaw* (New York: Harper Business).

⁹ AJ Dunlap agreed to pay \$15 million to settle a lawsuit brought by the shareholders of Sunbeam Corporation.

See "Former Sunbeam Chief Exec Settles Hldr Lawsuit for \$15M", Dow Jones Newswire, January 14, 2002.

¹⁰ Hill & Jones, however, qualify their assertion by conceding that "However, on a more general level, each group can be seen as having a stake in the continued existence of the firm."

¹¹ See Handy (1992).

¹² See Orts (1997).

¹³ See Clark (1985).

¹⁴ In the fiasco at Enron Inc., (despite the enactment of the Sarbanes-Oxley Act in the US, post Enron debacle) the executive management has spun the illusion that their actions were maximizing the welfare of the majority of shareholders. The top-executives colluded with auditors by rewarding them with sweet business deals. Credit-Rating agencies favored Enron with strong assessment reports. They exploited California's electricity system and its consumers. Enron incentivised and even compensated its employees with E-SOPs. As we see, the distinction between the constituencies of employees and shareholders becomes blurred. Reputable Investment Banks didn't exercise due diligence while engaging with Enron. Even, few months before the bankruptcy, Enron was deemed a role model for corporate governance. Here, the underlying motive was the avarice of the top echelons at Enron. Except the welfare of its customers, the interests of an overwhelming number of stakeholder factions were aligned to the purported image of organizational growth. The customers of Enron were corporations or legal fictions like itself. Read Khan (2011).

¹⁵ Venkataraman (2002) says that: "at some level, stakeholders have to be joint.....they must be travelling in the same direction or else there will be an exit".

Phillips *et al.* (2003) note that Gioia (1999), Marcoux (2000), Sternberg (2000), Jones and Wicks (1999) equate 'balancing' with treating all stakeholders equally irrespective of the fact that some obviously contribute more than others to the organization.

In a critique of the stakeholder theory, Phillips *et al.* (2003) illustrate that the concept of 'balancing' in the following three ways: first, *egalitarianism* – is distribution based on something like Rawls's difference principle (Rawls 1971)¹⁶; second, *equalitarianism* – is equal benefits for all stakeholders; lastly, *pareto-consequentialism* – is making at least one better without diminishing anyone. Therein, the benefits accrued from the activities of the corporations are distributed 'equitably' based on relative contributions, costs, and risks to the organization. This method is referred to as 'equity'. The study, however, argues that egalitarianism is not a feasible method of 'balancing'. Thus, if 'equality' and 'equity' are the suitable approaches, it further raises some interrelated critical issues that need detailed examination. The following questions would be discussed later and in greater detail.

Hypothesis 1: For whose benefits the firm ought to be managed?

Hypothesis 2: Are all stakeholders equal with regard to their:

[Hypothesis 2.a] inputs to the organisation?

[Hypothesis 2.b] proportion or share to an organisation's wealth or value?

[Hypothesis 2.c] and hence deserve an equal representation in decision making process (not much discussed)?

Or

Hypothesis 3: are the various stakeholders 'concerns' unequal in importance due to the inequality in inputs or merit? If all the stakes are not equally important to the organisation, then how can the stakeholder 'factions' be prioritized?

The issue of who has a stake or who does not have a stake not in the continued existence of the firm still remains unresolved since the theory itself. As pointed out earlier this academic dispute is considerable because of the abstract nature of the theory. The answer to the issue also offers a key to the prioritization of stakeholders.

Phillips (2003) suggests that stakeholders can be classified effectively into two types: legitimate or normative stakeholders and derivative stakeholders. 'Stakeholders', in common parlance, are those factions or constituencies that contribute to the activities of businesses, and in lieu the organisation has a moral obligation to the well-being of their 'stakes' of those groups. Groups such as financiers, employees, customers, suppliers and local communities that surface frequently during the discussions on stakeholders are normative stakeholders. Derivative stakeholders, on the other hand, are those groups or individuals who can result either in inflow of benefits into or outflow from the organization, but to whom the organization has no direct 'moral obligations'¹⁷ as it has to the normative stakeholders. Simply put, the organisation does not intend to maximize the value for such stakeholders, but such constituents are recognised in the decision-making for the organisation. Elements like competitors, the media, activists, and terrorists fall in this category.

The issue of treatment to stakeholders depends, to a considerable degree, upon the aims and the objectives of the management. If the intent of the managers is to mitigate the discord and inequality among the shareholders and further to restore and foster harmony, then *equality* should be the basis for distribution of benefits. On the contrary, if the objective of the organisation (as for for-profit

¹⁶ According to Rawls's Difference Principle, organisational structures and mechanisms should be designed so as to offer the greatest benefits to the most disadvantaged stakeholders.

¹⁷ 'Moral obligation' arises in consideration of inputs into organization by stakeholder factions. Performance of some activities and abstinence from some, as prescribed by the law, do not amount to 'moral obligation'. Statutory responsibilities exists prior and separate to the obligations of a company to its stakeholders and are immaterial to determination of stakeholder status.

organisations) is to maximize wealth and optimize performance, then equity should be the suitable mode for distribution¹⁸.

Stakeholder inputs: The role of stakeholders in decision making.

One of the major limitations of stakeholder management theory has been the greater emphasis that this theory places on the outcomes of a firm's activities and the distribution of those outcomes and the effects thereof, rather than the inputs and the processes of the organisations. An important issue at hand is to conclude which stakeholders should be allowed to participate in the decision-making processes with regard to an organisation's policies and strategies. In particular, the representation of stakeholder concerns to the board of directors is a contentious issue and remains underemphasized. Moreover, stakeholder theory achieves significantly less than its full capacity. Procedure is as important to stakeholder theory as is the final distribution. In relation to the previous issue of equitable treatment, two aspects have to be accounted for:

[Aspect 1] An assessment of the relative contribution, costs and risks of various stakeholders.

[Aspect 2] An asymmetry of information relating to organisation's systems and the potential outcomes of the organisation's actions in due course of business.

Lind and Tyler (1988) have concluded in their research that stakeholders feels that if the procedures are just and greater participation is allowed in the decision-making, stakeholders are more likely to accept the outcomes, even if such outcomes themselves are poor or far from optimal.

3. RESEARCH METHODOLOGY

3.1. Research gap

I have observed, upon literature review that the discussion on stakeholder management has been on the stakeholders as an aggregate entity or a macro-view. The literature review was unable to find any research which explored any particular stakeholder 'faction' in detail, whether normative or derivative. It stands to findings to infer that little has been written about the importance of employees as important stakeholders in the theory and literature. That aside, Orts and Strudler (2002)'s version of stakeholder theory refuse to acknowledge the sovereign and the local communities around which the business works, despite that the economic interests are often influenced by the firm.

Equally important, if not more, there is dearth of literature on stakeholder management in the India. The concept is still nascent in India in comparison to west, where it is prevalent for about last three decades should be studied and debated. The two aforesaid issues have resonance as regards the application of stakeholders' theory in India. In India, which has lately seen a spate of industrial violence, the pitch for employee welfare is every increasing and the situation of the employees in various corporations has come under intense scrutiny. Besides, it is my understanding that discounting

¹⁸ Phillips *et al.* (2003) illustrate a guiding framework by noting that: "The question of stakeholder prioritization depends—at least in part—upon the reasons and goals underlying the use of a stakeholder approach to management. If a stakeholder approach is employed in order to improve performance in the standard business senses, then equity is more appropriate as a distributive value. On the other hand, if greater harmony or a decrease in discord among stakeholders is the more important proximal goal of the stakeholder approach, then equality as a basis for distribution better conduces to this goal. In the case of the for-profit organization we would expect that performance goals would be primary and thus we suggest that equity will be the most commonly appropriate mode of distribution. The method of stakeholder input is an open question. Everything from stakeholder representation on boards of directors to informal and non-specific "concern" for stakeholders by decision-makers has been suggested. However it is achieved, it is important for the sake of ethics, psychological well-being, and organizational success that stakeholders be accorded some say in determining not only how much of the organization's outputs they receive, but how those outputs are created." See Business Ethics Quarterly, Volume 13, Issue 4: [pp-490]

the government or the sovereign, which ideally represents the nation or the society in which the business operates, is misplaced in the literature review. Especially, in democracies like India, Corporations are expected to operate within a rule of law. Negotiating this maze of laws can be a daunting challenge for organisations. Although the impediments in the labour laws and business environment have been previously researched, revisiting such issues from the perspective of stakeholders' management is valuable. Phillips *et al.* (2003) perceive the needs for changes in current law to strengthen stakeholders' management as an overextension of stakeholders' theory. However, Phillips *et al.* (2003) cite several scholars like Marens and Wicks (1999), Orts (1992, 1997), Jensen (2001), Williamson (1996) to argue that change in law is not necessary¹⁹.

3.2. To summarize the research gaps

[Gap 1] Little emphasis has been accorded to employees as a stakeholder group in the discourse.

[Gap 2] Government is not recognized as a stakeholder (not even a derivative stakeholder).

[Gap 3] The adequacy of laws to promote stakeholders management, especially in the Indian context is not discussed. Apparently, this can be construed as paradoxical. According to Freeman (1984) "implementation of stakeholder management principles, in the long run, mitigates the need for industrial policy and for increasing role for government intervention and regulation."

Aim and Objectives of the Study

This article aims to evaluate the critical issues of stakeholder management in India vis-à-vis Employees & Government: The Indian Scenario. To that end, I have identified the following three objectives:

[Objective 1] To find out the priority of employee welfare in companies and its relation to labor and employment regulation.

[Objective 2] To evaluate the importance of the regulatory business environment and its effect on corporate governance.

[Objective 3] To analyze the corporate governance practice of Indian corporate houses for past 2-3 yrs. with reference to the government as stakeholder.

The nature of the research is primarily exploratory. Through this research I have tried to develop the working hypothesis in the Indian context and have attempted to formulate a few hypotheses from an instrumental or operational point of view. While collecting data I have concentrated on three domains: the company/for-profit organization, a normative stakeholder - Employee and a derivative stakeholder - Government. The population or the universe is finite and comprises of companies registered under the Indian Companies Act, 1956. In fact, I focus on those Indian companies engaged in businesses that have a close direct interface with the Government. This typically includes companies that belong in industries like manufacturing, infrastructure, telecom, power, mining and natural resources (coal and gas). I have selected twelve companies from the population which I believe to be an optimum sample size. The sample units are representative of the population and there is minimal variance among the population members as regards the parameters of interest: the status of employee and the regulatory business environment. I have collected secondary data, qualitative in nature, through a combination of observation and analysis of contents. My content analysis consists of analyzing the documentary material conveniently collated from business articles, media reports, business magazines, details of companies from their respective websites.

3.3. Findings of the study

The results of this study will be discussed in detail. Meanwhile, for the convenience of readers, I have summarized the key findings in the table below:

¹⁹ Business Ethics Quarterly 13(4): "In short, discourse concerning the legal relationship between the organization and its stakeholders is welcome, but the theory does not require a change in the law to remain viable. [pp-491]"

Table 1: Summary of the findings in this study

Sl. No.	Issues highlighted in the study
	Treatment of workers in Indian Corporate houses: A challenge to stakeholder management –
1.	<p><i>Brief Matter:</i> A widespread discontent exists among workers for their employers. This intense grievance manifested in militant demonstration with destruction of property and loss of lives, in particular that of executives.</p> <p><i>Few Organizations:</i> Manufacturing organizations viz. Granzano Transmission India, Pricol, Regency Ceramics came under intense scrutiny. But the scale and intensity of the cruel display of agitation at Maruti Suzuki stood out.</p> <p><i>Reasons:</i> This dissatisfaction is an outcome of the unbridled informalization of the low and semi-skilled workforce, especially in manufacturing. This substitution of formal and permanent labor for information and contract labor has happened because of the disincentives faced by the businesses from the inflexible and antiquated labour laws in India.</p> <p><i>References:</i> Bhasin (2007), Debroy (2012) Iyengar (2012).</p>
2.	<p>Regulatory business environment in India and its influence on stakeholder management –</p> <p><i>Brief Matter:</i> Despite the economic reforms in India in 1992, the vestiges of previous stifling regulatory business environment still remain. The government’s policy decisions and framework is often discriminatory</p> <p><i>Few Organizations:</i> Businesses that have significant interface with the government: Civil Aviation (Jet Airways), Infrastructure (Lanco Group), Cellular Operator (Airtel, Vodafone, Idea Cellular), Republic TV.</p> <p><i>Reasons:</i> First, the conflicts of interest of the political executive in policy matters in relation to corporate India. Second, the collective failure of the political class to institute formal funding of politics which is exploited by crony capitalists. Third, the dominant opinion that the bureaucracy is slow in policy making, fourth, the regulatory framework and policy making reduces the efficacy of the enabling environment.</p> <p><i>References:</i> Gowda and Sridharan (2012), Kohli (2012) , Nayyar (2012) , Shinde (2013)</p>
3.	<p>Response of Indian Corporate houses to government in the context of stakeholder –</p> <p><i>Brief Matter:</i> The corporates constantly endeavor to tweak government policy to its advantage. In particular, these firms offer plum employments to former bureaucrats and employees of public service enterprises.</p> <p><i>Few Organizations:</i> Reliance Industries Limited (RIL), Oil and Natural Gas Corporation (ONGC), Republic TV, Zee News, Star News.</p> <p><i>Reasons:</i> Weaknesses in quality and efficiency of public institutions of governance, crony capitalism, hostility of a particular political dispensation and the expertise of former bureaucrats in negotiating the regulatory business environment.</p> <p><i>References:</i> Put in end notes.</p>

Treatment of workers in Indian Corporate houses: A challenge to stakeholder management

This work, at first, takes up the assessment of the importance of employees in Industrial houses, in India. From the information available in public domain, I collected the following disturbing facts.

1. In September 2008, in the course of heated negotiations between a group of laid-off contract workers and the management of the Noida-based Italian firm, Graziano Transmission India, the company’s CEO was killed by a blow to his head.”²⁰
2. In 2009, a Vice-President of the Coimbatore-based auto components manufacturer, Pricol, succumbed to injuries after he was assaulted by a section of agitating workers.
3. In January 2012, workers at the factory of Regency Ceramics, Yanam in Puducherry, enraged at the death of their union leader, lynched the President of that unit

²⁰ “In short, discourse concerning the legal relationship between the organization and its stakeholders is welcome, but the theory does not require a change in the law to remain viable”. See [Rao \(2012\)](#).

4. Maruti Suzuki India Ltd has pleased the Indian customers since 1983 when it disrupted and transformed the Indian automobile market with the launch of its comfortable and cost-effective mass vehicle Maruti 800. It was the best-selling car in India until 2004. In later years, the Maruti launched popular mass cars such as *Alto*, *Swift* and *Dzire*. The company has also kept its shareholders happy with phenomenal growth and profits. Its shares are quoting about 80 times in 2018 from its initial public offering (IPO) price at Rs. 125 in 2003. The managerial personnel take pride in working for the company. But, sadly, its vast majority of workers are a disgruntled. The savage violence demonstrated in the Manesar facility of Maruti Suzuki India Ltd., on July 18, 2012 is undeniably contemptible. The scale and the fury displayed shook the very foundations of the Industrial scenario of India and captured India's collective consciousness. The unit, at Manesar, was an important one amongst the production facilities owned by Maruti. Regardless of the material facts of this specific incident, the scale of the mob violence is only a culmination of the deep resentment and dissatisfaction with the work environment and employment policies of the organisation. At a greater level it indicates the systemic malaise that is inherent in the practices prevailing in Indian industry. I found out that prior to the incident on July 18, Maruti had faced a five-month long labour agitation in the previous year. Maruti incurred gigantic losses in production, substantive loss in market share and allegations that the management doled out a hefty sum to the management to abandon the movement. Over time the statements of the management appear to be inconsistent over time²¹.

Iyengar (2012) and argues that the grave discontent among the employees, especially the workmen, that manifests as industrial unrest; in most cases it is aggravated by the *casualization* and *contractualization* of labour with few social benefits and instability in employment. Iyengar (2012) cites Jamshyd N. Godrej, Chairman and Managing Director, Godrej and Boyce to emphasize the imperative of the eminent corporations in India to initiate pilot projects that will examine ways in which such corporate houses can improve their industrial relations and investigate the optimal ways to effect equity in the treatment of various strata in employee structure, given the regulatory policy construct. Hire-and-fire need not be a synonym for a flexible employment norm. The article emphasized on the dire situation of housing of the workmen.

In contrast to India, Bangladesh has been able to lift millions of people out of poverty due to higher real wages and higher productivity. The garment manufacturing industry employs millions of the Bangladesh population along with being a major source of export earnings for Bangladesh. Over the past few years, Bangladesh has successfully used its low-cost advantage to become a base for garment manufacturing. This has led to the migration of millions of people from rural areas into the manufacturing sector, with women being the biggest beneficiaries. Significantly, the share of employment in the formal sector in Bangladesh is 27.9%, well above that in India, and the proportion of working women in formal employment is even higher. India's draconian labour laws discourage MNC's to relocate low-cost manufacturing to India on their withdrawal out of China²².

The employment policies of organisations, in India, pertaining to day-to-day practices, procedures, relations, rights and obligations of employers and employees are regulated by the employment and labour laws, mainly protective and beneficial in nature. Although of recent form, these laws have their roots in the British rule. Some of the provisions which were enacted a hundred years ago have no relevance today

²¹ "Chairman of Maruti Suzuki India R C Bhargava claimed on 20 July in a press conference that it was the Government of Haryana which had reservations about the registration of a union and not the management. Does this claim have any credence in light of the fact that last year Maruti Suzuki withstood a five-month long agitation, massive production losses, loss of market share and gave a huge payout to the union leaders to abandon their struggle for the registration of their union? If Maruti Suzuki did not have reservations about the registration of a union, then how do we interpret Managing Executive Officer (Administration) S Y Siddiqui's statement in June 2011 that Maruti Suzuki will neither permit the formation of a union nor tolerate any external affiliation of the union". See Sehgal (2012).

²² See Chakravarty (2013).

The lacuna in the labour and employment laws summarized in the Economic Survey 2005-06 are still relevant. The immensely restrictive and relatively inflexible Indian labour laws apply only to the organized segment of the Indian labour market. As a result, these laws have constrained labour mobility and therefore incentivized capital-intensive methods in the organized segment. This has adversely affected this segment's long run demand for labour.

Bhasin (2007)²³ reports that if the engines of economic growth, i.e. the business units feel clobbered by the antiquated and dilatory regulatory framework of labour then the performance of such enterprises shall suffer substantively. Therefore, effective liberalization of India's economy cannot be achieved in absence of reforms of the labour laws. Bhasin (2007) illustrate the maze of ossified adjudicating authorities — conciliation officers, conciliation boards, courts of inquiry, labour courts, industrial tribunals and the national industrial tribunal — under the Industrial Disputes Act. Such complex procedures are out of sync with the essential pre-requisites for the success and even the survival of companies in a globally integrated economy. This paper argues that labour reforms hold the key to improve the competitive edge and investment flows into companies by enhancing productivity, customer service, cost effectiveness, technological upgrade and adhering to delivery schedules.

In an outstanding work documenting the inadequacies in the labour laws, Debroy (2012) points out that the high protection offered to organised workers, by rigid labour laws, strangles labour flexibility and corrodes the competitive advantage of organisations. It therefore discourages employment and formal labour and rather encourages capital-intensive modes of production. Indian Corporate houses are unlikely to invest in labour-intensive industries (like Ready Made Garments and Footwear) that have the potential to employ millions of the populace. Especially in such industries high labour flexibility is needed as demand from overseas markets generally fluctuates in different seasons. This partly explains why barely one-tenth of all workers are in the formal or organised sector: companies are reluctant to add to their formal labour rolls. Indian labour market is deeply segregated. The privileged status of the one-tenth labour aristocracy, who are unionised, highly paid and protected, comes at the cost of the nine-tenths of the informal and unprotected workers, who for all practicable purposes have zero legal rights^{24.a}.

Debroy (2012) raises the existence of a plethora of obsolete rules and regulations (such as the need to maintain manual labour rolls: modern computerised records are not allowed in some states!). He argues the pervasive problem of *inspector raj* - the enterprises face while dealing with an overwhelmingly large mass of corrupt inspectors. Other constraints pertain to limiting the hours of operation for shops, or limiting the hours of female employment^{24.b}.

He studies the intricacies of the joint jurisdiction of the union and state government and convincingly argues that even with a given central government statute, labour regulations can vary widely across states. He demonstrates that along with variations in state level regulations, states intervene in those areas that have no direct bearing on industrial relations. Often such interventions are ludicrous and gratuitous. He cites the provisions of the Factories Act, which endows the provincial governments with the authority to prescribe stipulations as basic as the number and the location of spittoons, latrines and urinals that should be provided in a factory. The provincial government can construct rules that require the provision therein of suitable places for keeping clothing not worn during working hours and for the drying of wet clothing. The personnel of such governments often prescribe practices that were common a century ago and are now redundant by the amenities of modern life such as electricity or computers. Some rules say that factories must be whitewashed (painted with white lime).

²³ See the world bank policy research paper, "Labour and Employment Laws of India", by Lalit Bhasin , <http://unpan1.un.org/intradoc/groups/public/documents/apcity/unpan029043.pdf> (Accessed on 06.10.2013)

²⁴ a. Refer to Chapter No.4 "India's Segmented Labour Markets, Inter-State Differences, and the Scope for Labour Reforms", by Bibek Debroy, in the book *The Economic Freedom of the States of India 2012* [P-75]

b. Ibid [pp-76]

c. Ibid [pp-76-77]

Apparently plastic paint would not do. For instance, the rules say earthen pots filled with water are required. Apparently mechanized water coolers and water dispensers would not suffice. Red-painted buckets filled with sand are required by the Rules. Fire extinguishers would not do. There must be crèches (day-care centres for little children) within the factory. Making transport arrangements for accessing crèches outside the factory would not be enough^{24.c}.

So upon content-analysis I find that there are glaring deficiencies in the Indian employment and labour regulators that disincentive companies from engaging in benevolent employee management.

Regulatory business environment in India and its influence on stakeholder management:

With the economic reforms of 1992, the onerous regulatory controls on businesses were lifted. However, the polity still remained unreformed. The businesses had the political interaction a stifling factor to survival and sustenance. The vestiges of the erstwhile License Raj or the Permit Raj are a big drain on the business environment of India.

Few of the major lacunae plaguing the government policy and reasons thereof are presented below.

3.4. These are intertwined and difficult to segregate

First, the political executive in the government often has conflicts of interest in transactions of corporations amongst one another or those with the government. The overweening perception is that big corporations lobby their financial resources to have incumbents as ministers, in governments, amiable and even obliging to their business interests. The Nira Radia Tapes allude to that direction. This is not endemic to India or emerging markets alone. The term Lobbying owes its roots in the United States. It is the manner and the levels of influence that Corporations exercise on the highest echelons of the Government in countries like India. The concerns of the corporations regarding political risks spilling over as business risks cannot be discounted either. The situation aggravates when politicians apparently closer to business magnates are anointed at the helm of the ministry that regulates the business of the latter. Media reports, insinuate that the incumbent Union Civil Aviation Minister as he was a friend of the chairman of Jet Airways. It is alleged that the former, in his capacity as union minister acted, in a manner that would promote the interests of Jet Airways²⁵. This, if true would put other airlines at a disadvantaged position. The last Air-India episode points to the fact that a once profitable airliner has been relegated to being a laggard while other private carriers profit getting its erstwhile market share. Air-India being a national carrier is sustained on the Indian tax payers' money.

Second, the failure to institute formal funding of politics as its obverse, realistic accounting of funding and expenditure has made politics surest way to the riches. The need to mobilise political funding through corruption engenders proliferation of rent-seeking opportunities. Under these circumstances business tycoons face political and legal risks from hostile elements in the government, on the one hand and are attracted to politics as an enormously rewarding venture on the other²⁶. Mulraj (2017) cites that cab aggregators such as Uber and automobiles manufacturer have faced operating losses due to warped public policy decisions of state governments and vested interests of elements in the union government. There exists a clear incentive for businessmen to enter the field of electoral politics to protect and promote their business interests. In the last two decades several small and big industrialists have entered politics. A preeminent example of this trend is that of Vijayawada Indian National Congress (INC) Member of Parliament (MP) Mr. Lagadapati Rajagopal, who heads the Lanco Group of Companies - business conglomerate which spans from power projects to real estate ventures and to sponge iron making. By many accounts, The Lanco Hills, on the outskirts of Hyderabad be one of the biggest real estate projects in the country. Mr. Lagadapati owns substantial shareholding in all the

²⁵ Refer to <http://www.outlookindia.com/article.aspx?269451> to read excerpts of the Nira Radia Tapes. (Accessed on 09.03.2018)

²⁶ See Gowda and Sridharan (2012).

group companies despite his claims of disassociation from the company management²⁷. A more recent case in point is that of MP and the Bharatiya Janta Party (BJP) president Mr. Amit Shah, who is the director of the Ahmedabad District Cooperative Bank (ADCB). Just 5 days into the abrupt demonetization exercise across India, ADCB received deposits of a herculean figure of about Indian Rupees (INR) 7.60 billion in spiked notes. It is curious to note that the autonomous central bank and the banks' regulator, the Reserve Bank of India (RBI) had to prohibit DCB's from accepting spiked notes five days into the mammoth exercise on fears of DCB's being conduits of laundering illicit monies (IANS, 2018).

Third, the preeminent perception about India's Government is that its bureaucracy, excruciatingly slow moving at times, a weak political leadership and high-profile, anti-corruption drives snarl-up decision-making in New Delhi. Bureaucrats are worried over corruption investigations sit on their heads, for fear of being accused of doing favors for India's richest²⁸. This opinion is aggravated by the following opinion that from being inactive in policy making, the government is engaging in regressive decisions that will enormously destroy the fundamentals of industry, as explained in the following.

Fourth, there exists a dominant opinion in the Indian policy brains trusts and the academia that the policy making and regulatory framework of India is tuned in such way that it clobbers business rather than promoting it. India has a myriad of regulators for various industries. It is logical to assume that regulators are to regulate and not control let alone frame policies and statutes that would stifle the development of the industry concerned. The rationale behind any regulator is to aid the development of a vibrant and robust industry and to protect it from collapse due to predatory and unfair trade practices that strangles competition. The principal role of regulators ought to oversee that the nation's resources are husbandized effectively and in a transparent manner. However, there is a scathing indictment of the government and its regulatory bodies when it comes to this aspect of business regulatory environment. According to business magnate and president of apex Industry chamber, CII, Mr. Adi Godrej, businesses requiring extensive interface with the Government, like infrastructure, mining and natural resources have been adversely affected. It is felt that the recent policy actions in telecom, coal, power, gas and taxation have badly hit businesses. Also, some of the key concerns pertain to the new Land Acquisition Bill, Manufacturing policy, General Anti-Avoidance Rules, Coal Policy. Those who don't have direct significant interface viz Banking, Information Technology, Pharmaceuticals, Fast Moving Consumer Goods, and Cement are doing reasonably well²⁹.

Let us consider few episodes which captured India's attention in the past two years. The three cases which present the government as a stakeholder in an unflattering light are mentioned here-in-under:

By media accounts, the Telecom Regulatory Authority of India (TRAI) has not fulfilled its mandate of nurturing a healthy business environment for the Telecom sector. The failed over-pricing of spectrum tariff during 2-G auction demonstrates misplaced thinking on the part of TRAI³⁰. The spectrum pricing was abnormally higher for 3-G auctions. Furthermore, during the auction of 122 cancelled licenses for a total of 26.6 MHz of spectrum, TRAI intended to *refarming* of the spectrum i.e. taking away the efficient 900 MHz bandwidth from the successful bidders like Airtel, Vodafone, Idea Cellular forcing them to remain stuck with the less efficient 1800 MHz bandwidth offered under the 122 cancelled licenses. This would compel the operators to double their number of telecom towers. Such a move has disastrous consequences for such operations facing fierce competition in this sector.

²⁷ See (Rao 2011). Andhra Industrialists turning to politics to protect their interests. India Today, June 10. Refer to <http://indiatoday.intoday.in/story/andhra-industrialists-turning-to-politics-to-protect-their-interests/1/141035.html> (Accessed on 05.01.2018)

²⁸ See Kohli (2012).

²⁹ See Nayyar (2012)

³⁰ See (Shinde, 2013). Regulators must promote not strangulate industry. The Times of India. September 11. Refer to http://articles.timesofindia.indiatimes.com/2013-09-11/edit-page/41938464_1_telecom-sector-trai-regulators (Accessed on 06-12-2017)

It's also alleged that TRAI has acted to put GSM operators like Airtel, Vodafone, Idea Cellular at a disadvantage to Dual Technology ones like Tata and Reliance Communications. Although the latter stand to lose a portion of their spectrum under *refarming* but they could bid for the more efficient 900 MHz bandwidth, thereby cutting down costs substantially. By TRAI's own admission, the price of spectrum in India is 70-80 times the spectrum price charged in advanced economies which have much higher income levels ³¹.

In another instance, after the government lost its legal battle, against Vodafone, on tax-evasion issue at the Supreme Court, the government sought to introduce the retrospective tax amendment on Vodafone and the General Anti-Avoidance Rule (GAAR) for foreign investors-in the Union Budget on March 16, 2012. Vodafone was the largest FDI investor till 2015-16. Such policies with retrospective effect display that there is no regard for prevailing laws, thereby raising the legal risks inherent in business environment. This is likely to severely dent India's image as a favorable investment destination ³².

The power sector of India was paralysed because of severe shortfall in the availability of coal. Coal is the monopoly of the PSU, Coal India Ltd. Before the rare presidential directive to Coal India to sign the fuel-supply agreements with all the power plants, which had in-turn entered into long-term power purchase agreement with power distribution companies. Coal India contended that its production capacity is fettered by the environment ministry's refusal to allow mining in some areas and land acquisition issues. Rajiv Kumar of FICCI, however, argued that the contemporary shortfall was of 85 million tonnes and Coal India has 200 million reserves of coal at its disposal, in areas with environmental clearances. The Ministry of Environment and Forests is strongly opposed to the new Coal Regulatory bill that would help in liberalizing the coal sector. Understandably, the new bill takes away its discretionary powers on mining ³³.

Instances of arbitrary and discriminatory treatment by Government of India (GoI) abound in the mass media industry that benefit select corporations; the GoI controls the airwaves and have the discretion to disburse licenses to operate the treatment to promoters of such media corporations. Since, April 2014 the GoI has issued licenses to only one media house Republic Television (TV) and purportedly in a highly efficient time-frame of 3 months when compared to the fact the digital newsportal Bloomberg Quint awaiting approval of license application for last 1.5 years (Dutt, 2018). In addition, in response to a Right to Information (RTI) query, the Information and Broadcasting Ministry, Government of India (GoI) revealed that from April 2014 through October 2017, GoI has expended an almost titanic amount of Indian Rupees (INR) 37.55 billion on advertisements (New Delhi Television [NDTV], 2017).

Response of Indian Corporate houses to government in the context of stakeholder:

Let us consider a case which demonstrates that the corporate has avenues to tweak government policy to its advantage. However, with a change in the incumbent of the ministry, government's attitude can be downright hostile.

Reliance Industries Limited (RIL) is the largest private sector company in India ³⁴. Reliance has run into conflict with the Ministry of Petroleum and Natural Gas over the abysmally low levels of gas output in the D-6 block of the Krishna Godavari (KG) Gas Basin. Director General of Hydrocarbon (DGH)'s decision to force Reliance to surrender eighty six percent of Knighthood of the KG D-6 block including the gas discoveries worth U.S. \$ ten billion as the time period to develop the fields has expired. RIL attributes DGH's inconsistent policy decisions to the delays in what it considers its best

³¹ Same as End Note 29.

³² Ibid.

³³ Ibid.

³⁴ Declared on <http://www.ril.com/> (Accessed on 02-12-2017)

oil and gas assets. It contends government's actions arbitrary and disputing the valid discoveries completely. As a contractor it asserts to have spent enormous amount of time and money on bringing these discoveries to fruition ³⁵.

According to media reports, ministry officials and energy experts feel that the fall in the level of gas output is deliberate. A gas pricing review was agreed in 2014. Reliance was willing to meet the shortfall once the government accepts its request for a price-hike. The subject matter of the Production-Sharing Agreement is also a bone of contention between RIL and the government. The contract allows RIL to recover hundred percent of its exploration costs but that recovery is not related to production amount. However, under the revenue sharing agreement between RIL and GoI, the government receives only 10 per cent of the revenues from selling KG-D6 gas until RIL recovers one-and half times the its investment. This rises to 16 per cent when RIL recovers 1.5 times to twice its investment. It further goes up to 28 per cent when revenues account for twice to 2.5 times of RIL's investment. Thereafter the government's share of revenues will be 85 per cent. Thus, the higher the cost of exploration and production, the longer the government has to wait for a bigger share of revenues. It was for these fields that RIL had received significant investment in British oil giant, British Petroleum (BP). Unfortunately, the country suffers because of the shocking decline in output, regardless of the faults of either the government or RIL ³⁶.

Many bureaucrats undertake employment with corporations (having close interface with government) or work as consultants for them. This appears to be the standard practice within the industries concerned. Precedents galore that groups like Bharti Airtel, Sterlite, Arcelor Mittal, Hyundai and many others have cozied up to power centers within the ruling dispensation. But even by those standards, reported in the media, Reliance is peerless in its ability to tweak policy making and regulatory environment to its advantage. For instance, former power secretary D.V. Kapoor serves on the RIL Board of Directors. Initially employed with the ONGC as a geoscientist, Ravi Bastia was employed at RIL, heading its operations as Vice President. Bastia is credited with the huge gas discoveries in the Mahanadi Basin and the KG D-6 block as well. Incidentally, Mr. Bibhas Ganguly, the COO of RIL was also with ONGC ³⁷. Moreover, instances of politicians seating on the Boards of Governors of some of the widely popular and highly profitable business in India are plenty (Nayyar, 2015).

With regard to another dimension of Crony Capitalism, Thakurta and Jain (2018) chronicled that illicit profits of corporates that belong in the black money not only eats into the revenue of the government, but also offer unfair uncompetitive advantage over the firms that obey the laws. The former take advantage of the double taxation avoidance treaty of tax havens (predominantly Mauritius) with India to design their structure of holding and affiliated companies to dodge tax and route illicit gains in the form Financial Portfolio Investments (FPI's) and a unique promissory notes (PN's) at the expenses of honest corporates and retail investors. Jayaraman (2017), Venu (2017) and Shenoy (2017) are excellent insightful works that document the effect of unholy nexus between politicians and Board of the public sector banks that has left bad loans on their balance sheets in a gigantic scale and the use of financial engineering to recapitalize the banks.

In the case of media, majority of corporations toe the narrative of the ruling political dispensation. A few instances highlight the alleged insidious coercion employed by vested interests in the GoI of the not amenable media businesses. Media houses such as Republic TV and Zee Television are perceived to be subservient to the vested interests. These two media houses had intensely heralded the benefits of the demonetization, placed a high amount of prime-time news hour to the activities of the incumbent prime minister (PM) and acutely criticized dissenting voices against the policy actions of the PM, thereby assisting the ruling class in crafting a stellar public opinion of the government and that of the

³⁵Read 'Oil Watchdog biting sector: RIL to Secy', September 12, 2013. Available on <http://www.cerebralbusiness.com/KnowledgeBase/News/Oil-Watchdog-Biting-Sector-RIL-to-Secy-198895.htm> (Accessed on 12-01-2018)

³⁶ <http://businesstoday.intoday.in/story/mukesh-ambani-jaipal-reddy-faceoff/1/22684.html>

³⁷ Ibid.

PM; this is quite opposite to what media is expected to do. In popular media, this subservience is termed as saffron journalism (Khan, 2016; Daniyal and Venkataramakrishnan, 2017). In contrast, NDTV faces a hostile attitude of the sovereign (The Citizen Editorial, 2017). More recently, one eminent news anchor and a senior editor with the Star News apparently resigned in duress after the team broadcasted the glaring inconsistencies and inaccuracies of the government's propaganda (News Desk, 2018). Few conventional news broadcasts have covered this episode. In fact, it is hard to find media corporations in India that are overtly critical of the government.

4. CONCLUSIONS

The findings from the literature review and content-analysis lend credence to the imperative for the corporations to put effective mechanisms for their sustained growth. From an international perspective we can conclude that the boards of directors of Indian Corporations do not have adequate mechanisms to collate and assess the relevant information about the effect of the corporation's actions on its various internal and external stakeholders. To be able to evaluate the top executives, the board will need to get specific information on the effectiveness of the strategy implemented for all the firm stakeholders. Secondly, notwithstanding that stakeholder theory does not promote or discourage managerial opportunism and that ideally it's against it, the self-seeking behaviour of managers in the guise of benefiting a particular stakeholder faction or multiple factions is an abuse of and a challenge to stakeholders' management. Companies need to devise system of checks and balances to mitigate this possibility. Thirdly, greater progress has to be made towards the constitution of the board of directors to implement equitable treatment of heterogeneous stakeholder interest constituencies. This, in my opinion remains a formidable challenge to stakeholders' management. From an Indian perspective, I was able to notice the following deficiencies confronting effective stakeholders' management. First, severe structural inadequacies exist with regard to the management and treatment of the sub-set of *workmen* within the employee constituency. The Indian companies practise informal labour policies. The present state of Indian labour laws stifles the scope for the Indian companies to formalise the workforce. To an extent their concerns are genuine. Secondly, regardless of the informal nature of the workforce, granting the organisations minimal legal hassles and hence substantively mitigating legal risks, organisations has not been able to develop a democratic industrial relations framework that can address the concerns of workers. Companies need to proactively address the concerns of workers towards the goal of comprehensive stakeholders' management. Third, material available in the public domain suggests that Indian corporate houses have realized the importance of workmen well-being and are willing to employ workers on legally enforceable contracts if laws are tuned to realities of times.

When I inquire into the influence of regulatory business environment, based on the information available, I conclude that the government policies in relation to industries are not benefiting businesses. On the contrary, the recent government actions and policy decisions seem to harm the business prospects of firms in India. India's business environment is not efficient. An efficient business environment encourages the industry to invest. Companies can continue to invest if it has sufficient reserves and surplus. To that end, the prices that the company receives from the market have to be remunerative. The government's decision to keep the fees, tariffs and taxes high is adversely affecting the industry. This will also dent government revenues in the long run. Allocating resources at the lowest fair price to industry and maximising public good must be the object of the government and the regulator. The government must not be motivated by maximising revenues in the short term. As we see, that the significance and scope of the task of management of Government, as an external and derivative stakeholder is no way insignificant to that of other stakeholder factions. In fact, the outcome of managing the attitude and policy decisions of the government can profoundly impact the profit, growth and the continued existence of the corporation. Certainly companies have grave concerns about the unfavorable business conditions and are incentivized to engage in informal activities, especially lobbying to maneuver Government policies to their advantage.

5. RECOMMENDATIONS

I believe that, as suggested by Pigé (2002), the best reporting design for the board of directors should include an approach based on both the stakeholders and the processes analysis. One key element to join both aspects would be to rely on a model similar to the balanced scorecard.

The government can effect progressive provisions in Companies Act, 2013 to encourage companies to address the concerns of workers. Besides, the labour and employment laws of India need to be progressive to incentivize corporations to promote and safeguard the interests of the employees, especially the workmen. Radical reforms in the labour legislations will be very difficult, but a series of effective reforms can be enacted. Some of the plausible changes suggested by Debroy (2012) can be achieved³⁸. Two of India's neighbors China and Bangladesh were able to enact regulations in a manner that did not discourage corporations or their affiliates, working in those countries to relegate employee interests by recruiting and employing informal workers, outside the purview of regulations. In respect of the regulatory business environment of India, the supreme court of India has offered the guiding framework for government's policy decisions. It has observed that, all resources, including airwaves, are public property. It ruled that the government is a mere custodian of these assets and must not hoard these resources for itself (like it has with coal), nor look at profiteering from them (like it has with 3G and 2G). The apex court has asked the government to frame policies that mandates the corporations and businesses to exploit resources transparently and efficiently. For example, in the oil and gas sector, if increasing gas prices encourages oil exploration companies to invest more in building infrastructure and finding more oil, that's a good policy. Domestic production of gas will increase, lowering the need for imports and easing the balance of payments position³⁹.

The government should act as a responsible and effective stakeholder. It must keep the regulatory bodies at arm's length and not employ them as proxy agents to promote its revenue collection goals⁴⁰.

The government should try framing policies and regulatory decisions in concurrence with and even involving representatives of corporate houses. In the west, it is a standard practice for people of eminence, who have served in the private sector with distinction to serve on the bureaucracy and regulatory bodies. It is my understanding that this approach can be tried in India despite the overwhelming possibility of resistance from the civil services.

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³⁸ Refer to Chapter No.4 "India's Segmented Labour Markets, Inter-State Differences, and the Scope for Labour Reforms", by Bibek Debroy, in the book *The Economic Freedom of the States of India 2012* [P-78-81]

³⁹ Same as End Note 30.

⁴⁰ Ibid.

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