

The Corrosion of Values in Private Sector

Corruption has been making headlines in recent years, with the arc lights of the media and the public blindingly focussed on politicians, bureaucracy, public sector, and more recently, on the defence services. Unfortunately, the cancer of corruption has steadily spread well beyond the government and civil servants, and is now quite pervasive in the private sector too. Worse, while there are several constitutional and institutional bodies that have an oversight on the actions of public servants, the private sector relies entirely upon internal and statutory audits. Often, such audits are not conducted with the requisite diligence or competence. At other times, uncomfortable findings are usually swept under the carpet and at the most, concluded with quiet departure of a few employees.

While acts of financial misdemeanour in the private sector are not new, in the past they were largely confined to peccadilloes of a few (usually) low-ranking employees in the purchase department or to a few unscrupulous promoters who would siphon off funds from their publicly held companies for their own personal gains. Such shady dealings in the purchase departments, while deplorable and undesirable, rarely caused major, lasting damage to their employers. When it came to unscrupulous promoters siphoning off funds of other shareholders and lenders, while it did make many quite wealthy personally, their greed led to their milking their cash-cows completely dry and in most cases, total or near total destruction of their companies.

In recent years, the lure of quick and more money has led to a very disturbing spread of the starched collar crime. Corruption has stealthily moved to the so-called "C" levels, way beyond the traditional purchase departments and low-ranking purchase officers. With rapid changes in the composition of India's economy and rapid change in the way businesses are conceptualized and operated today, it is no surprise that several new corrupt practices have found their way in the ecosystem of private enterprise.

For example, till a few years ago, it would have been unimaginable that the human resources function could see emergence of corrupt practices. Unfortunately, with proliferation of all kinds of firms focussing on hiring and placement of talent at various levels including that for the C-suites where the fee for the placement firm for a single successful placement could easily cross Rs 50 Lacs, and annual recruitment budgets touching several crores, it is no longer unusual to hear some whispers about cosy relationships between the HR departments and the search & placement firms.

Real estate has long been one of the biggest creators of India's parallel economy. Unlike in yesteryears when private industry's real estate needs were largely focussed on acquisition of industrial land, today the industry needs tens of millions of square feet of office and other commercial space every year. Individual large companies, as they grow rapidly, routinely lease hundreds of thousands (or more) square feet of office, warehousing, and sometime retail space every year. With multiple factors determining the pricing of such space, and very rapidly changing demand and supply dynamics, real-estate buying or leasing has become increasingly more opaque. Murmurs of large sums of money exchanging hands between property owners / brokers and those involved in the transaction from the lessor's side are increasingly frequent.

Outsourcing is the "in" strategy for most businesses these days. In the years gone by, most private enterprises had a relatively simple business model that started with manufacturing of some product, and then distribution and selling of the same to the end customers / consumers through its own or largely its own organization. Today, outsourcing can happen almost across every function ranging from product development and design, production, distribution, logistics, information technology deployment, and sometime even marketing and promotion. Some of this outsourcing, such as buying

of manufactured goods, can actually be worth as much as 50% or more of the entire turnover of the sourcing organization and therefore “indiscretions” of merely a few percentage points on the purchase prices can translate into very large incentive for those engaged in this outsourcing. With increasingly larger allocations on advertising and below-the-line promotions, there is larger incentive to skim some off in connivance with some accommodating marketing and promotion agencies.

Finally, with more and more businesses seeking funding through relatively new (to India) channels such as private equity and various private funds, and such lenders having a somewhat higher appetite for lending compared with the traditional banking channels, there is some suspicion that a few fund managers may be tempted to privately earn their “carry” right at the time of making their investment decision (at eye-brow raising valuations).

In all such instances, even if these matters come to the knowledge of the Board or the promoters / top leadership of the business, the most common reaction is to quietly part with the concerned individual (or individuals) since most companies wish to avoid any public airing of such activity. Hence, while there are several examples of political and public servants being booked for corruption and many even jailed, there are few (if any) examples of much feted CEOs and other C-level occupants facing a similar fate.

If the private sector does not bite this bullet, and continues to shy away from makes a determined effort to bring perpetrators of such fraud to justice, it would only be corroding the very foundations of its own profitability and sometimes, its very existence.

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