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NEED FOR A NEW CORPORATE MODEL IN A NEW ERA: IMPLICATIONS FOR THE FINANCIAL SECTOR

***Subhash Sharma**

Abstract

In the new era of Globalization, we are faced with several cases of 'ethical failures'. New questions are being raised with respect to the foundational premise of the 'Corporate model' that originated to maximize the return to shareholders. Though it has undergone transformation towards the stakeholder concept, it is weak in terms of its ethical foundations. Executive greed as well as Corporate greed have overtaken the objective of 'wealth creation for society'. Wealth creation for the executives has taken primacy leading to many wrong decisions as indicated by the recent recession experience in America. Many American Corporations have fallen from grace. This indicates that there is a need to revisit the foundational concepts of the modern Corporations. Paper suggests the need for a new foundation in terms of a Tripod model, based on recognition of inter-linkages, interdependence and integration of Market, Society and Self. In this framework, Market, Society and Self are not only considered as Co-creators of wealth but 'Co-creators of Wealth with Grace'. For this 3 Rs (Resources, Responsibilities, Relationships) model is suggested. This model also leads us towards a new Performance Scorecard on the basis of 'Holistic Performance of The Corporation'. Paper also examines implications of 3 Rs model for Financial Sector for developing a new reporting system based on 3 Rs.

REVISITING THE CORPORATE MODEL

Journey of the Corporate Model can be viewed in terms of four stages of development (Sharma 2007), in terms of the following conceptual foundations:

Stage I: Corporations and Shareholders: The primary objective of the

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Corporation is to maximize wealth of the shareholders. Competition, efficiency and profit provide the basic foundation for this model. This model is driven by Pcs (Profit, competition and self interest) values and approach.

Stage II: Corporations and Stakeholders: There are many stakeholders and there should be a proper balance between the interests of various stakeholders. For example corporations can maximize the wealth of the shareholders by polluting the rivers. Social movements have now put pressures on corporations to prevent such situations. Ackoff (1981, pp. 48-49) argues that Corporation "should have responsibility to all its stakeholders and to society, the larger system of which it is a part".

Stage III: Corporations and Society - Citizenship model: In this stage of their evolution, corporations have been conceptualized as corporate citizens. Hence, expectations on ethics and environmental concerns have gained importance. Corporations are expected to follow, 'principles of ethical business' and not merely, 'principles of business'. It may also be indicated that Michael Porter and Mark Kramer (2006) have expanded the traditional view of strategy by suggesting interdependency between business and society.

Stage IV: Corporations as Social Institutions: In this conceptualization, corporations are viewed as social institutions with dominant influence on society. Hence, need for a symbiotic relationship between society, corporations and nation. They are viewed as social institutions and not merely business entities. In addition to the bottom line concern they have a social purpose and social relevance.

While stage I model is largely an efficiency model driven by Pcs (Profit, competition and self interest), in stage II, concerns of other stakeholders are also incorporated. In stage III, Corporations as corporate citizens are expected to behave like good citizens paying their taxes, following the rules of transparency and following the practices of good governance that are critical for good conduct of business. As good corporate citizens they are also expected to contribute towards their social responsibility through CSR (Corporate Social responsibility) activities. In stage IV, Corporations evolve into social institutions and acquire national level significance and importance. They become assets for the nation and society. Hence, they are considered as "National assets". Therefore, entire nation including media becomes interested in their functioning and performance as they become institutions of national and international importance.

Fig. 1 Presents the above discussed evolutionary perspective of the corporate model.

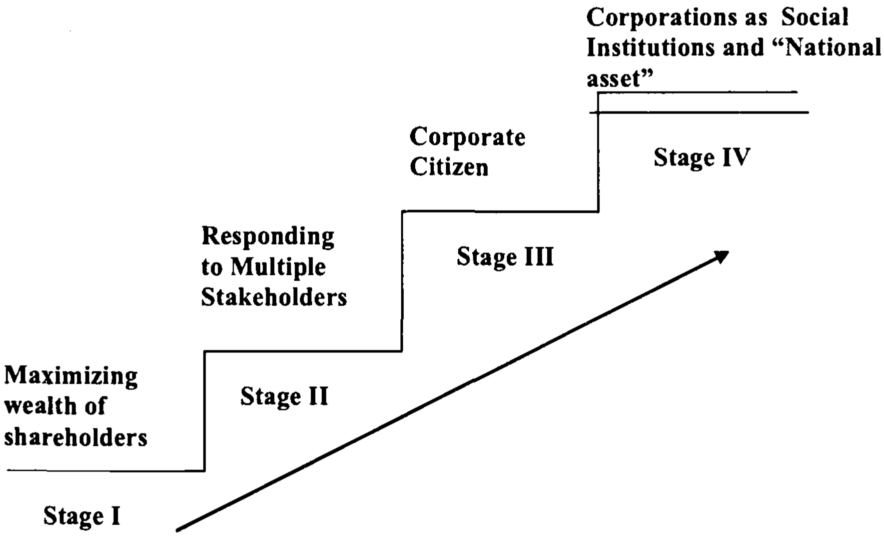

Fig 1: Four Stages Model of Corporate Evolution

Above presented framework provides us an analytical framework to classify Corporations into four categories viz. Type I/ Level I, Type II/Level II, Type III/ Level III and Type IV/ Level IV. For example 'India Inc' can be categorized in terms of these four types of Corporations. Many have graduated to stage IV / Level IV e.g. Tatas and Infosys and many others that are now treated as 'National assets' of international importance. Hence, the expectations of CSR and good governance are very high from these institutions. However, most of the India Inc remains in Type I/ Level I category.

When Corporations are in Levels III and IV and suffer from are ethical failures, entire nation and the world takes a note of it. In India, Satyam is a case study of the same. In US, failure of many financial institutions is a pointer in this direction. While a Corporation is evolving into levels III and IV, its top management's mind set may remain prisoner of 'executive greed' and 'corporate greed'. In order to maximize their personal wealth and wealth of the shareholders, top management may follow many unethical practices. When this happens stage is set for 'fall of the fittest'. This also reflects the failure of the regulators as they ignore the early warning signals.

Market, Society and Self: A Tripod Model for New Age Corporations

Ethical failures of many corporations and their fall from grace, has necessitated a re-look at inter-linkages between Corporations, Society and Leadership. The tripod model suggested here considers Market, Society and Self as three foundational pillars for New Age Corporations. These three 'entities' are rooted in three different 'laws' / 'Theories' of life (Sharma 2007). These are presented below:

I. Law of Market: Market operated on Pcs (Profit, competition and self interest) foundations. We can also refer to it as Theory of Profit rooted in Competition and Self interest.

II. Law of Society: Society wants Jrd (Justice, rights and duties) values to get importance within human society. We can also refer to it as Theory of Justice rooted in Rights and Duties. Many social thinkers such as Rawls and Amartya Sen have proposed their versions of Theory of Justice. Many times social discourse is centered around justice, rights and duties.

III. Law of Self: Self is looking for HOPE (Higher Order Purpose of Existence). Higher self is motivated by Lcd (Love, compassion and devotion. We can also refer to it as Theory of Hope rooted in Love, Compassion and Devotion.

Corporations are built on the basis of Law of Market. They tend to ignore importance of social discourse on justice and the importance of 'Higher self'. This is leading to many failures. Currently prevalent Corporate philosophy lacks in a 'holistic view' of life and society.

New Age Corporations in the form of Enlightened Corporations need new conceptual foundations. Its leadership should be HOPE driven taking us beyond the bottom line approach. Further, there should be a proper recognition of the rights and duties of various stakeholders. Thus, Profit, Justice and Hope rooted in recognition of inter-linkages and interdependence between Market, Society and Self, are the new foundational concepts for Enlightened Corporations that strive to become not only good corporate citizens but also National assets or the 'jewels in the crown'. This implies that Corporations should strive to achieve a balance between Market, Society and Self reflecting a balance between the triad of Theory of Profit, Theory of Justice and Theory of Hope.

WEALTH CREATION WITH GRACE: TOWARDS CHARACTER COMPETENCE OF THE CORPORATION

Prahlad and Hamel (1992) suggested the idea of Core Competence as a means to improve the competitive advantage of the corporations. Sharma (2002) suggested the concept of 'Character Competence of the Corporation'. Character competence is also reflected in good corporate governance practices. When these two ideas are combined together, we arrive at a 2x 2 matrix as basis for a typology of Corporations. This Core Competence-Character Competence Matrix is presented in Fig 2.

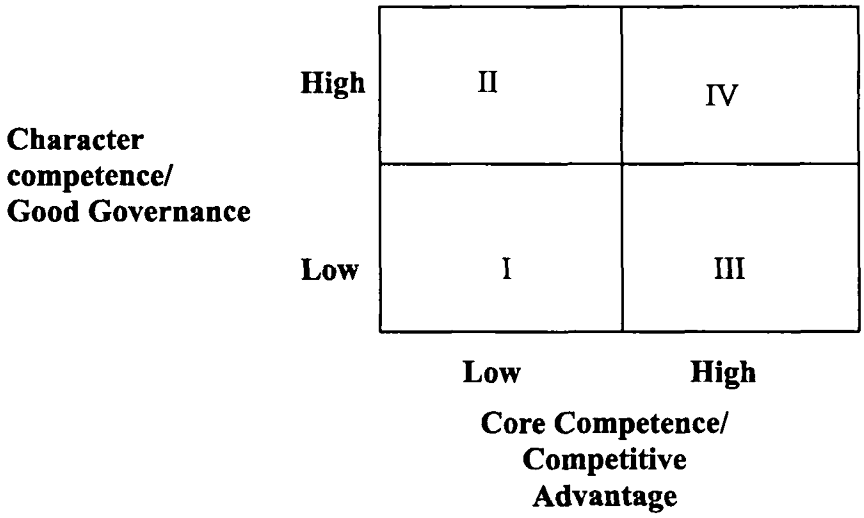

Fig. 2: Core Competence and Character Competence Matrix

Thus, there are four types of Corporations:

I. Low on core competence/ competitive advantage and low on character competence

II. Low on core competence/ competitive advantage and high on character competence

III. High on core competence/ Competitive advantage and low on character competence

IV. High on core competence/competitive advantage and high on character competence

Ideal Corporations belong to category IV i.e. they are high on Core Competence/ Competitive Advantage and high on Character Competence/ Good Governance. They combine competitive advantage with good governance and thus represent the idea of 'wealth creation with grace'. They become social institutions and 'National assets' of national and international importance. They also represent the idea of 'Corporate Shubhlabh'. It may be indicated that the concept of 'shubhlabh' (ethical profits) is an ancient Indian concept and is also applicable to the modern day Corporations.

In consonance with the tripod model presented earlier, we suggest a new model for Enlightened Corporations in terms of 3 Rs model wherein three Rs represent the following:

R1: Resources

R2: Responsibilities

R3: Relationships

If Resources are not used in responsible manner, it leads to over exploitation of resources as well as to Greed leading to poor Governance and thereby low character competence. Further, if Corporations do not fulfill their responsibilities towards society, they remain irrelevant to the masses. If they do not build relationships with the neighborhood (in addition to their other stakeholders) they may even invite hostility. Hence, for the New Age Corporations, 3 Rs model provides a new foundational concept. Fig 3 presents the 3 Rs model in terms of a triadic relationship between Resources, Responsibilities and Relationships. This can also be considered as a model of 'Corporate Shubhlabh'.

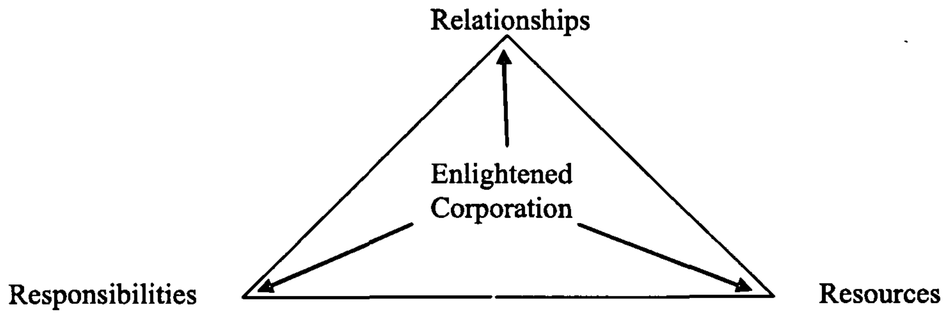

Fig. 3: 3 Rs Model of An Enlightened Corporation/ Enlightened Organization

Corporate shubhlabh implies co-creation of wealth with grace. In this co-creation, Market, Society and Self are active partners. This implies a paradigm shift in thinking from the idea of wealth creation by any means to the idea of wealth creation with grace.

TOWARDS HOLISTIC PERFORMANCE SCORECARD (HPSC)

The idea of Balanced Scorecard (BSc) given by Kaplan and Norton (1996) is a popular concept. Sharma (2008) suggested the need to go beyond Balanced Scorecard and suggested the idea of Holistic Performance Scorecard. While deeper conceptual foundations of Balanced Scorecard are rooted in Competitive advantage and Strategic vision of the Corporation, the conceptual foundations of Holistic Performance Scorecard are rooted in the vision of a New Corporate Model based on Tripod of Market, Society and Self as discussed in this paper and related writings.

3 Rs framework presented in this paper provides us a new conceptual foundation for developing Holistic Performance Scorecard for the Corporations. Focus of such a scorecard is on linking the Resources, Responsibilities and Relationships with Corporation's ViSA (Vision, Strategy and Action plan).

IMPLICATIONS FOR FINANCIAL SECTOR: THREE RS QUESTIONS

The ideas presented above have implications for Corporations in general. They also have implications for the Financial sector institutions. Financial institutions draw upon the resources from public and their failures can lead to turmoil in the entire economy as has been the recent experience of failures of American financial institutions with an open display of executive greed and corporate greed leading to unethical and irresponsible ways of managing the resources.

3 Rs framework has a metaphorical meaning for the Financial sector. Rs also stands for the Indian currency Rupee. Hence, 3 Rs model leads us to three Rs questions that are particularly important for the Financial sector given its national importance and international significance. In essence, policy makers and managers in this sector need to ask the following 'three Rupee' questions:

1. Are the Resources being used properly?
2. Is the sector and institutions within it socially responsible and transparent?

3. Are the institutions managing relationships with stakeholders and neighborhood in proper manner ?

It is time to incorporate answers to these three questions in the Balance sheet and Annual Reports of the Financial Institutions because Financial institutions are institutions of 'national significance'. This implies that we need to develop a new reporting system based on holistic approach of 3 Rs, to regulate and monitor this sector and its institutions to avoid ethical and governance failures. As the experience shows the cost of such failures is very high.

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