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### Manager's toolbox: Ethics and values

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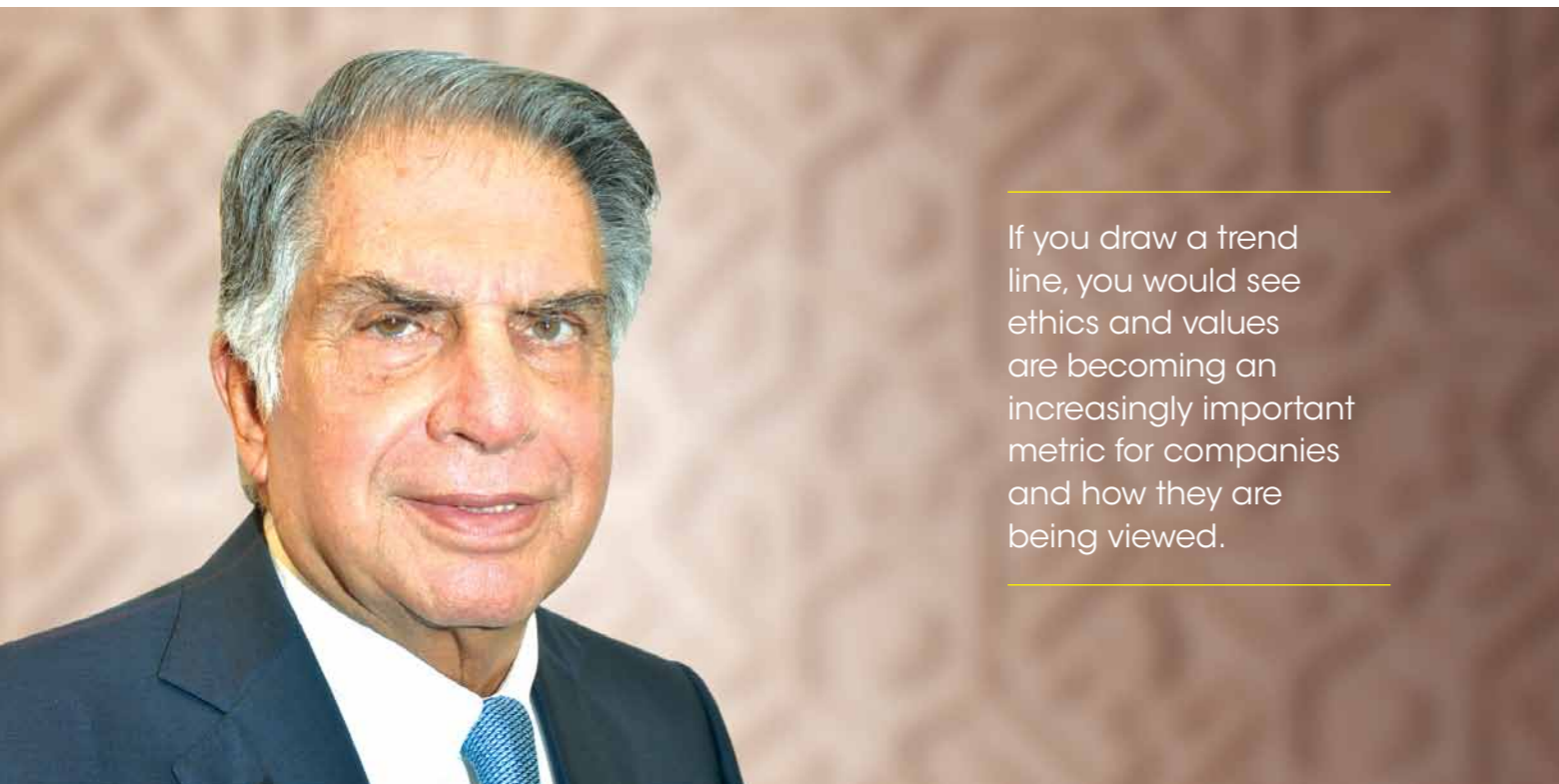
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# Manager's toolbox: ETHICS AND VALUES

**Ratan Tata** zeroes in on ethics and values as part of the science of management, and India's current economic journey, in this interview with Philip Zerrillo.



If you draw a trend line, you would see ethics and values are becoming an increasingly important metric for companies and how they are being viewed.

## Looking back on your career, what do you think have been the biggest changes and challenges globally in the practice of management?

Thus far, I've seen that managing a company is as cyclical as markets or economies. In boom times, managers are more willing to take greater risks and are looking for faster

growth, but will also seek to cut corners. I've seen these cycles where things get very tight, become very closely controlled, and then suddenly a great empowerment of the people takes place, followed by a great urge to go out and grow.

Another change is the increasing importance of ethics and values and it's an issue that seems to be growing steadily within

managing groups. One is seeing decades of greed, as they were called, disappear and then come back again. However, throughout this time there has also been a growing respect for, or growing acceptance of, highly ethical companies. On the whole, if you draw a trend line, you would see ethics and values are becoming an increasingly important metric for companies and how they are being viewed.

## To what extent does the media impact ethics?

I'd have to say that a segment of the media has turned out to be self-serving. This is not unique to India, and I think it's the face of media everywhere. I'm talking about their constant striving for sensationalism and the damage it can bring to a country, the stability of a government, the distortion of situations and facts—and in not reporting facts as they should be—have all done enormous damage to our country (India). And it's all happening under the protection of freedom of expression.

In my view, this comes down to a lack of responsibility. We saw this during the terrorist attack in Bombay. Ironically, I think the television news was the greatest source of information for the terrorists. If they needed to know what was happening outside, the logistics and so on, all they had to do was watch the news channels. Now the same holds true for much of the problems that we see around us here. News is taken, manipulated, selectively issued. And I think that's all part of the ethical behaviour that I was talking about earlier. You need to protect people's dignity. And I don't see that today.

## Have there been technologies that have changed the business models dramatically?

I think the material sciences have changed the capability of products. We've seen products and companies go in a particular vein, and suddenly some of the materials they're using are considered to be toxic, or non-degradable, and the whole industry changes.

## People have been talking about emerging markets for some time, although lately the conversation has turned to a question of confidence. What are your thoughts on the future of emerging markets?

I really believe that the emerging markets will continue to be at the forefront. Why? Simply, they are large markets and have large populations. To address these large markets, they are going to demand that companies look at the base of the pyramid rather than the top. I think in terms of economic prosperity, they're behind some of the developed markets, so there's scope for them to grow, and therefore there is potential for companies to scale up in those markets. They're low cost, with the availability of relatively low-cost labour. Then, as education and the knowledge-base improves, with many of the citizens of these emerging markets going to the same colleges and universities as anybody else, the ability to create and the ability to skate on the technology arena is very high.

The only thing that's not there, perhaps, is the same kind of challenge and opportunities that happen in a developed market. A very intelligent, creative Indonesian, for example, might end up in the United States, and never come back, because the opportunity in Indonesia would not be there. But I think that over time, and as prosperity grows, many countries—Singapore being one of them—would like to recreate the same kind of opportunities in their home countries as they might elsewhere, as well as provide the same facilities and the same quality of life.

So I believe that the emerging markets and the African continent would be the real growth area of this world. There will always continue to be a shift of the so-called "dirty" or less attractive processes to the developing world because the developed world wants to be free of them. Meanwhile the developing world will acquire the technology to go beyond those primary processes, and compete with the developed world in global markets.

## How can companies unleash the kind of thinking that allows them to look at the bottom of that pyramid?

I think most companies want to enhance margins. In which case there's a natural gravitation to try and market products that have the highest margins that the market can bear, which, by implication, means you want to rise to the top where your margins are large and perhaps the volumes are small. And then there's the more difficult domain, which is the base of the pyramid, where the volumes are huge, but the challenges to be viable at those low margins, are more difficult. The only way for a company to create that environment is to challenge the people to develop products, to put themselves in the shoes of that segment of the consuming population, and to try to give them an exciting disruptive product. There are some negatives in that too. As in the developing world, I think people want to be seen to be prosperous. And if there's a product that's supposedly a low-end one, perhaps the snob appeal factor doesn't allow it to be a runaway success; people don't want to be seen with the lowest level of the pyramid. Nevertheless, I think there's a huge opportunity at the base of the pyramid.

## In India, there's been a tremendous shift in liberalisation of the markets over the last 25 or so years. What have been the key constraints or benefits that this has led to and what has been the overall impact that you have witnessed on industry or society?

Speaking as an Indian rather than a businessman, if I look at pre-1991 when the market was opened up and most of the controls were removed, I think the greatest thing that happened is that suddenly the consumer had the ability to choose. Let me give you a couple of examples. In the automotive area, India produced two passenger cars for 30 or 40 years. They never increased the volume. They produced 50,000 cars a year, and you

waited seven years for your car from the time you placed your order, and that was it. Unless you were rich and could import a car at 150 percent duty, and you needed a licence to do that, the only car you could get was the one that you had waited seven years for, or had paid someone a premium to get his slot in the waiting list - and that was it. Today, almost every international carmaker is here in India, assembling one or more of their products in the country. And suddenly consumers have the opportunity to choose. As for the cars that were produced in those days, they hardly exist today. One company has closed, and the other company continues to produce very low volumes.

Cell phones and smartphones are other examples. Who would have thought that we'd have 800 million subscribers in this country? The chance to choose and the desire to be "connected" has been the most spectacular difference that one has seen.

### **What challenges will the slowing Indian economy present in the short to longer term?**

I think the challenges are quite enormous. The slowdown isn't due to an external cause; it's something we've done to ourselves, and the impact of the slowdown is quite devastating for us. We basked in the glory of high growth rates for several years, over eight percent, sometimes briefly over nine, and that led to certain buoyancy in the market, as well as an unfortunate amount of inflation. I think the Reserve Bank reacted to that inflationary trend very harshly, which I can't blame them for, because it had shot up very fast.

But what also happened was that we started to tear ourselves apart with a period of scams and scandals—mostly politically motivated between one party and another—but it knew no bounds, and it drove the government into a sort of bureaucratic paralysis where, quite understandably, a government official would be hesitant to take a decision, lest

three years from now someone came and told him he had done something illegal. So the net result was that everything slowed down, from infrastructure and mining to telecom; the courts got involved and made some decisions that they considered correct; the whole country came to a virtual standstill because nobody wanted to take a decision or felt they lacked the protection of their ministry, or the minister, or the government, in terms of what they do.

### **Do you believe that when there is a lack of certainty, investors are more reluctant to invest?**

I think so. I think in periods of uncertainty people want to maximise liquidity and flexibility for themselves, while in boom times they are willing to take greater risks on uncertainty because there's a certain amount of buoyancy in the market. But at a time like this (of uncertainty), investors want to pull back, hold on to their liquidity, put it into bonds or safe instruments, and do whatever they can to conserve cash. This usually means that expansion and growth doesn't take place, new plans and new processes, as well as new products, are put on hold - and those all deter growth.

And I think this trend is unfortunate, as it won't stamp out the corrupt people, because they will still find a way to operate—but it has had a widespread effect on industry in the country.

### **Is India's young population a demographic bonus or asset? Or is it a challenge?**

I think it is a challenge. It's a bonus or a liability based on what you do for the young population. Over 70 percent of the population has access to television; they know what's happening not only in the India around them, but also in the world. It raises their aspirations. Fifty years ago, a young person would probably have just looked at his whole life spent working in the fields. Today the same young person,

with some education, is striving for his place in the sun, to make a name for himself. He desires a better quality of life and is going to pursue it. If you cannot give these young people the hope and the opportunity that they want to have, I think you have the grounds for a revolution in 15 years. If, on the other hand, you do give them the opportunity, you create a country that over time will hopefully emerge as an equal opportunity country based on merit, then I think you've got a tremendous bonus that you can exploit, that you can grow, that you can build. And it will have a cycle too, because just like other countries, that workforce will feel discontented and then start to decline. China is going through that cycle today.

### **Much has been talked about concerning the respective growth of China and India; what challenges do you see ahead for China, versus potential opportunities in India?**

I think the political system in China enables China to do things more dramatically and faster and with less pressure of being voted back. I wouldn't say with less concern, because that wouldn't be fair to the Chinese government. I think they've been quite sensitive—but in India, we are paying a price for a running democracy, and in as much as there's no strong single party government - only a coalition of parties—it's much more susceptible to consensus and/or compromise than a strong government. So I would say that while China may have its skirmishes or differences of opinion, more so as time goes on with the government than it had in the past, the country will probably still go down a defined path with much more focus. India is in danger of dissipating itself again in self-criticism, scandals, scams, and so on, all of which end up hurting the country more than anything else. I'm not saying that we shouldn't be rooting out corruption, but we should root

out corruption ruthlessly and not dissipate ourselves and blame everything around us and look for the snake under the stone, which may or may not be there. So, I think China will probably continue to emerge as the leader between the two.

### **What does the recent launch of the controversial space probe mean for India?**

I don't know. I've agonised over that myself. On the one hand, I think the scientific community in any country wants to have the sense of not being inferior to those of other countries. India has been a country with a very strong nationalistic feeling that comes from years of foreign exchange shortage. The cost of self-sufficiency for India has been quite pronounced; for many years the state sector operated on the basis of the slogan of self-sufficiency at any cost. People wouldn't sell to you because you were part of the nuclear club that the West didn't like, or you weren't part of certain defence treaties. Thus for whatever reason, you had no choice but to build your own submarines and steel plants, while for aircraft, you'd go to Russia and collaborate. It's very much a Soviet view to elevate the scientific community, its various strengths, and not worry about the rest of the country. So if you were to talk in terms of priorities, I would question the Mars launch for drawing the kind of resources that it did draw. And if it is just to provide status or honours for a group of scientists, then I think it's wrong. However, if that scientific endeavour leads to a widely dispersed technology spin-off, then that's great.

### **If you were talking to a young manager about the future, what would you say to them?**

I think I'd like to go back to the issue of values and ethics because if you look at the last 20 or 30 years, there's been a real destruction of the fabric of value and ethical behaviour in the country. And I believe that

in a corrupt system, there's a giver and a taker. Most people look at the taker, but there's also a giver, usually from the private sector.

And I think one excellent thing that could make a difference, would be for every manager to take the view that they're not going to participate in this corrupt system, and that they're not going to get ahead over their competitors by confabulating in dark corridors of power in the night, but that they're going to fight in the marketplace openly and ethically, and that the best person wins.

The fact is that, speaking generally, we are so negative about our competition. We can't sit in the same room as one industry and seek what we should be seeking in terms of government policy and so on. There is a great urge for 'selective' protection or competition.

We tend to be five industry leaders going to the government privately and trying to get "something for me, not for others", or "do it for me, but make sure he doesn't get it", which means we're fragmenting ourselves in terms of the strength of the industry.

So the first thing I think I would do is to seek the manager's commitment to an ethical and a value-based operation and personal lifestyle. That will go a long, long way. I would also like to see young managers not look at their career only from their personal prosperity, but to give back something to their community or the country in general. And I'd also like to hope that this would be not something forced upon them by mandate or otherwise. This would help take away the elitist status of managers and enable them to become greater contributors to a country's prosperity.

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