Business Standard

Boardrooms must have conscience

Directors, including CEOs, are increasingly expected to speak up in the boardroom. They may do so based on their personal conviction or their understanding of the company's culture or desirable values

Amit Tandon December 24, 2017 Last Updated at 21:39 IST

Activist CEOs — those that take a public stand on political and social issues unrelated to their company's bottom line — are in the news. They certainly are in the US, where CEOs are speaking up — over their government's withdrawal from the Paris Agreement or the White House order on immigration or even personal issues like same sex marriage and the morning after pill. Should they be doing so and do companies benefit from their CEOs taking a public stand on issues that fall outside their realm? Is it the company's view which they are vocalising? And if so, are companies expected to have a conscience — even as people seem not to have one?

Businesses have moved on from the time Milton Friedman argued that the business of business is business. It can still pretty much be asserted that there was a value judgement implicit in Friedman's missive, because what he essentially said was that businesses should concern themselves with making money while obeying the law.

Businesses have since come to recognise they need to think about more than just profits. They need to look at what is in the broader interest of their employees, suppliers, communities, societies — in fact the entire ecosystem in which they operate. Enterprises evolved in a manner different to what Friedman visualised. The focus moved to the "E" and "G" in ESG. Social issues with a focus on the double-bottom line and ethical issues have now crept into the boardroom. (In a contrasting move, not-for-profits have moved in the opposite direction, focusing on efficiencies and their bottom line, in order to deliver the most bang.) These issues are often thorny: Apple's decision not to help with unlocking the iPhone divided its customers, with some backing the decision as protecting their privacy and others critical of this as abetting terrorists.

A company's view will no doubt be shaped by its area of operation, primarily because the industries have different constructs and consequently different pressure points. Human trials may be critical for those in pharma, while mis-selling may be at the top of the agenda for those in financial services. Some issues like payment of speed-money or terrorist financing in which LafargeHolcim finds itself caught, will cut across sectors and cannot end well. And it's just as likely that businesses shape societies, shape societal views. Look no further than the impact Silicon Valley has had on social mores.

The times businesses operate in also matter: the Swiss banks got away with what is essentially tax evasion and now find themselves hemmed in.

illustration: Binay sinha

A company may be a separate legal entity, but it is after all a group of individuals. So whose opinion matters? It may be that of the management, and in India it may well be that of the controlling shareholder, it may be the employees who increasingly project their personality onto that of the company they work for, or customers and shareholders.

Investors have already taken up public positions on social issues. Many investors have decided not to invest in coal. A few weeks ago, Norges Investment Management, Norway's pension manager, announced that it will steer away from investing in oil. Some community-driven or religious investors will not invest in companies that deal with leather products or alcohol or cigarettes. These sectors will continue to exist and indeed some companies in these sectors may prosper. But like coal-based power companies embracing renewable power, they will need to acknowledge the need to purposefully provide mitigation to their social and environmental impact, if they are to exist for the longer term.

Customers too ask for change. A survey in the US by the PR firm Weber Shandwick, in partnership with KRC, found that 40 per cent of the respondents favoured CEOs talking about hot-button social issues. Millennials in the aggregate were more demanding, expecting the CEOs to speak on social issues, and they are more likely to buy products from companies whose CEOs are vocal because they see them as being more authentic.

Where does this leave Indian boards and importantly the CEOs? Today they are expected to opine on the company's operations and strategy and on issues related to the environment and governance and avoid speaking on issues that fall outside the office premise. But social issues — beyond environmental concerns and CSR spend — are starting to find a place in board discussions. These issues may be examined with the lawyers or social activists in the room — State Bank of India has gone so far as to appoint a chief ethics officer — but can no longer be glossed over. Directors, including CEOs, are increasingly expected to speak up in the boardroom. They may do so based on their personal conviction or their understanding of the company's culture or desirable value systems. And they must be prepared to take them public.

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