Original Research Paper

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THE ROLE OF 'BUSINESS ETHICS' IN THE MANAGEMENT OF FAMILY-OWNED BUSINESSES AND PROFESSIONALLY RUN BUSINESSES IN INDIA. AN IN-DEPTH STUDY OF THE GROWTH PATH FOLLOWED BY LARSEN AND TOUBRO AND ADANI GROUP OF COMPANIES.

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ABSTRACT Business ethics is an ever-changing process with respect to time and longevity of its exitance. L&T and Adani Group of Companies are two examples of Indian companies. The difference is the number of years in existence as well as the type of ownership. Returns are much higher in the faster-growing Adani Group of Companies in the last decade, but the stability and confidence of shareholders seem to be more with respect to L&T. Business ethics is an important institution and should be followed strictly by the company as well as by the government. **Research Question:** The paper will attempt to analyse the manner in which the Indian business sector has developed since independence. The reforms of 1991 opened up the economy to competition. It is under this that different business models developed. A large number of them moved from one level to another. It is in this context that the paper analyses and contrasts the growth of business ethics in family-run business setups and professional-run organisations in the economy. The paper will attempt to contrast various parameters of satisfaction amongst the two setups.

KEYWORDS : L&T, Adani Group of Companies, Business Ethics, Organisation, Industry, Indian Economy, Fiscal Deficit

1. INTRODUCTION:

India started its major reforms in 1991 when the economy opened up to globalisation and liberalisation. Licence Raj and various other quotas were completely done away with. The prime reason was that at that time India did not have enough foreign exchange to pay for its essential imports. The economy till then followed a policy of import substitution, implying that whatever was required in terms of machinery, equipment, etc. was encouraged to be produced within the economy. This policy decision aimed to increase the industrial capability of the economy as well as spend a minimum amount of foreign exchange on imports.

India is an economy which is solely dependent on its fuel requirement from other countries. The country tried to ensure that there should be a sufficient amount of foreign exchange available for such essential imports. The aim of the economy was also to control its fiscal deficit.

2. Definition:

To analyse the impact of different types of industries, it would be essential to look into the importance of fiscal deficit for a country. There are three types of deficits which are important:

- Fiscal Deficit
- Primary Deficit
- Revenue Deficit

2.1 Fiscal Deficit

Fiscal balance is the overall difference between the overall government revenues and spending. The difference between the total revenue and total expenditure of the government indicates the borrowings of the government. These borrowings are normally financed by the government issuing bonds, increasing taxes or running down foreign exchange reserves. The excess of expenditure over revenue is common amongst most economies, but a 'large' deficit implies that the government has spent substantially more than what it has received. A revenue deficit occurs when the realised net income is less than the projected net income.

Primary deficit, on the other hand, is the difference between the current year's fiscal deficit and the interest paid on the borrowings of the previous years. Once calculated, the primary deficit reflects what the government has to borrow to meet its current year's expenses.

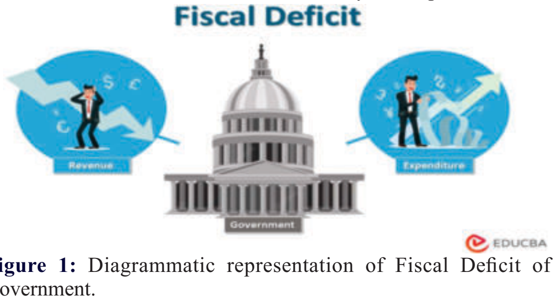

Figure 1: Diagrammatic representation of Fiscal Deficit of a Government.

Source: EDUCBA

Figure 2: A comparative study of Fiscal Revenue and Primary Deficit

Source: Investyadnya

The fiscal deficit is the most important as it includes the interest payment on the loans that the government has taken, both externally and internally. It was this figure that increased tremendously, which led to the 1991 economic reforms.

2.2 Family-Managed Businesses

Given the scenario in India during the 80s and the fact that India was a protected market, a number of businesses developed, where the government supported them through the 'Infant Industry Argument'. This meant that the government would help the Indian businesses in the form of subsidies and sops, such that they could manufacture for the Indian market. Their products may not have been competitive with respect to the price and quality of products of other countries. To help them initially achieve economies of scale, the government of India decided to help these industries with respect to even protected markets. When the economy opened up in the 1990s, there were fears that these industries may not be able to survive the outside competition and might have to just close shop. It is in this scenario that several family-run businesses developed and later moved to adopt ethical practices, which they thought would be imperative for their growth process.

Family-run businesses are defined as any business in which two or more family members are involved and the majority of the control and ownership lies within that family. It is a commercial organisation, in which decision-making is influenced by multiple generations of a family related either by blood or by marriage.

These family businesses can be classified as:

- First Generation or Founder Firms
- Sibling ownership or Partnership
- Family Dynasty or Cousin Consortium

India ranks third in terms of the number of family-owned businesses. Large corporate business houses like Tatas, Ambanis, Godrej, Birlas and Adanis to name a few are still controlled by the respective family, and the role of the family patriarch is especially important and respected. These businesses are the backbone of the Indian economy. Most of these businesses started in the late 80s and early 90s. A large number of them do not have a formal retirement plan, nor do they have a succession plan. Very often this has led to toxic relationships leading to delayed decision-making, which has directly affected the profitability of their ventures.

Figure 3: Image of first-generation Gautam Adani's family business tree.

Source: ScoopWhoop

The older ones like Birlas, Tatas and Ambanis have gone through several splits. This essentially means that the business has been divided amongst family members. These businesses started during the 70s, 80s and 90s in India. Adani being a first-generation company has not experienced any such split yet.

Indian families have a huge emotional connection with their empire. Their commitment to their business is unparalleled. Most of them have educated their second generation primarily in the USA and UK to understand the business with a more progressive outlook and with an eye towards business expansion and wealth creation. This achievement provides a huge amount of satisfaction to the original patriarchs.

75% of Indian businesses are family businesses. More than 80% of businesses continue to have the founders playing an active role in the business. In most of these businesses, second-generation family members have joined the enterprise. Most of these family businesses exist in large, medium and small enterprises. The challenge that they face is a lack of a succession plan, as well as rules and responsibilities for family members, including women, a lack of retirement age for seniors, a lack of family constitution and the lack of the new generation's induction into leadership roles.

This set of businesses keeps in mind both financial wealth as well as the family's socio-emotional wealth. There have been studies which indicate that these family businesses are likely to face issues from the family side, rather than from the business side. The main problem is to put the family in order, such that they can reap the benefits which would be available to them as India is a growing economy. The main issue seems to be that the senior generations do not want to let go of the reigns of the business.

2.3 Professionally Managed Businesses

Good and efficient management can strengthen a weak company, but poor and inefficient management can destroy an efficient profit-making company. Professionally managed companies are run by a set of people who are not the owners of a company. They may or may not have equity shares of the company. Professionals are in the position that they have been appointed as long as they complete their responsibilities. These managers can be fired by the board of directors if they do not meet the company targets. Their main aim is performance and consistency. The biggest disadvantage is that they too could leave for better prospects.

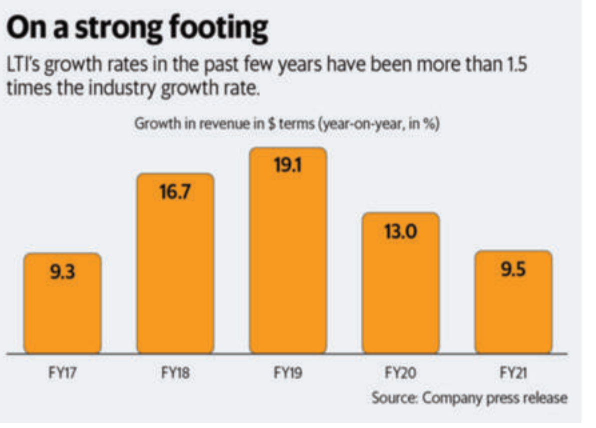

Figure 4: The growth path of Larsen and Toubro Industry (LTI) (A professionally managed enterprise).

Source: Company Press Release

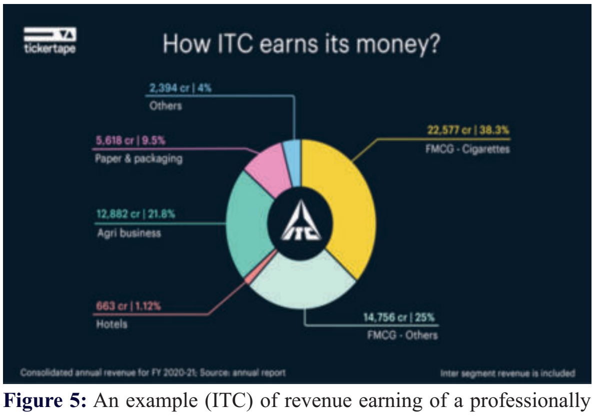

Figure 5: An example (ITC) of revenue earning of a professionally managed company.

Source: Tickertape

Professionally managed companies are likely to take more risks as they have higher gains and losses, while a family-run business are less likely to take risks. They are more concerned with stable profits. In professionally managed companies, there is an eagerness of managers to get better appraisals, quick promotions and even higher bonuses. Thus, they may tend to look at the short-term rather than from a long-term perspective. For a large number of them, quarterly performance may be more important than annual. A professionally managed enterprise, which has a larger participation, can bring in new ideas, energy and thoughts which are extremely important to meet everyday challenges. What is definitely true, is that a professionally managed companies protect minority shareholders' interests.

Growing competition has led these business enterprises to employ the best professionally qualified managers, such that they can meet the demands of the economy. The Indian economy in recent years has allowed several foreign-owned enterprises to enter the market, thus increasing competition for the existing enterprises. To meet this threat, professionally run enterprises are now run by highly qualified managers who specialise in planning, organising, leading and controlling the efforts of others. This is done through systematic knowledge, a common vocabulary and principles. These live up to the best 'standards of practice' and 'code of ethics' that have been laid down by an established and recognised body.

2.4 Business Ethics

Business ethics generally refers to implementing appropriate business policies and practices, specifically with respect to controversial subjects. The normal issues that come under ethics are:

- Corporate Governance
- Insider Trading
- Bribery
- Discrimination
- Social Responsibility
- Fiduciary Responsibility

Figure 6: Image depicting business ethics

Source: WallStreetMojo

The other important aspects concerning business ethics are:
1. Politics without principles
2. Wealth without work
3. Commerce without morality
4. Knowledge without character
5. Pleasure without conscience
6. Science without humanity
7. Worship without sacrifice

The set of policies and practices that are part of business ethics is important for companies as they help in guiding them through decisions about finances, negotiations and deals, corporate social responsibility, etc. It is important that a small set of ethics is laid out and exists for every business as the company can get into trouble with the law or encounter financial pitfalls and moral dilemmas. Good business ethics, on the other hand, ensure that the customer, the employee and other stakeholders follow the rules and do the right thing.

3. Background

There are two examples that the paper would analyse in depth. The first is the companies held by the Adani Family and the second would be Larsen and Toubro, which neither have Mr. Larsen or Mr. Toubro or their families been a part of the ownership pattern of the company.

3.1 Adani Group of Companies

Gautam Adani was born on 24th June 1962 in a Gujarati Jain family. His father was a small textile merchant. He founded the Adani Group in 1988 and is the chairman and founder of the Indian multinational conglomerate. His group headquarters are in Ahmedabad, Gujarat, India. His wife Priti Adani heads the Adani Foundation. He is a first-generation entrepreneur and follows the philosophy of growth with goodness. Adani started his bachelor's in commerce but dropped out in the second year. In his teenage years, he moved to Mumbai in 1978 and worked as a diamond sorter for the Mahindra brothers. He then established his diamond brokerage firm at Zaveri Bazaar, Mumbai. His older brother Mansukhbhai Adani bought a plastic unit in 1981 and asked him to run the operations. This led him to enter global trading via Polyvinyl Chloride (PVC) imports. From here onwards he established Adani Exports in 1988, which is now known as Adani Enterprises.

As India liberalised in 1991, he entered into trading of metals, textiles and agro products. He got the Mundra Port contract in 1995, which today is the largest private multi-port operator in India. He lost the title of Asia's second richest man in 2021, due to a sudden drop in the value of his shares.

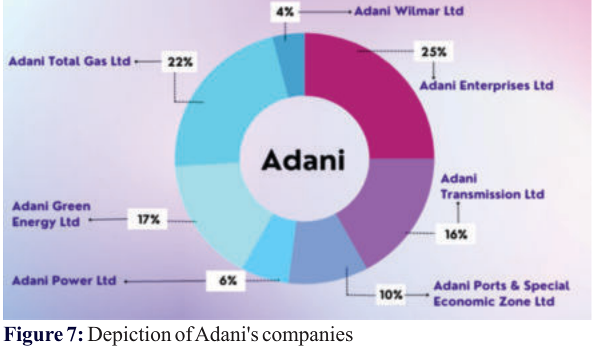

Figure 7: Depiction of Adani's companies

Source: 5paisa

3.2: Larsen and Toubro (L&T)

L&T is one of the most respected companies in India's private sector. It was started on February 7th, 1946, when Henning Holck-Larsen and Soren Kristian Toubro (They were two Danish engineers taking refuge in India) founded the partnership firm of L&T in 1938, which was converted into a limited company on February 7th 1946. Their business interests are in engineering, construction, manufacturing, technology and financial services. The company began as a representative of Danish manufacturers of dairy and allied equipment. When the second world war started in 1939, the trade was disrupted and thus, they started a small workshop to undertake jobs and provide service facilities. When Germany invaded Denmark in 1940, all supplies of Danish products were stopped. Wartime required the repair and refit of ships, which offered L&T an opportunity and they started the repair and refit of ships. In 1946, ECC (Engineering, Construction and Contracts) was incorporated and focused only on construction projects. This is still the construction division of L&T. In 1947, the company signed an agreement with Caterpillar Tractor Company, USA for Earthmoving equipment. As they required money, they started raising additional equity capital and by 1946 L&T private limited was incorporated. In 1950, L&T became a public company. In 1956, a large part of the company moved to ICICI house in Ballard Estate, which has now been purchased by the company.

Figure 8: Images of Larsen and Toubro

Source: StartupTalky

Larsen died in 2003 and Toubro in 1982.
The very first bridge that was built by ECC was in the mid-1950s and it was for the film 'The Bridge on The River Kwai'. It took eight months to build the wooden bridge and thirty seconds to blow it off in the film. The company was permanently headquartered in Madras and did not have much business till it won the contract to build the Jawahar Wet Docks for the Madras Port Trust.

Having spent three decades in India, Toubro decided to relinquish executive responsibilities and retired from L&T. He returned to Denmark and continued to serve on the L&T board till 1981. In 1978, Larsen retired from the company and N.M Desai took over as chairman in 1984. L&T was responsible for the building of the Bahai temple in Delhi. C.R Ramakrishnan (CRR) took the company to great heights and by 1994, it was the only company in India to offer total turnkey services in civil, mechanical and electrical engineering. He retired in 1991, and L&T was headed by Dr. Anumolu Ramakrishna (AR) a veteran known for his technical excellence and design expertise for technical innovation. It is during his time period that L&T expanded to other countries, especially in Africa which were fed up with Western companies. The primary objective was to satisfy a country's national plan and make profits for their own company. Under AR's leadership, profits grew fifteen times. During his tenure, they constructed the Kensington Oval cricket stadium in Barbados and contributed to social welfare, such as the construction of ten thousand primary schools post the 2002 earthquake across Gujarat at the rate of eighty days per school. They had started their Corporate Social Responsibilities (CSR) even before it was mandated by the government. Then, the reigns were taken over in 2004 by A.M. Naik. His aim was a 'win-win corporation' which meant bringing laurels for the company as well as India.

Every aspect of L&T businesses today is characterised by professionalism and high standards of corporate governance along with an emphasis on sustainability. Their mission is to be a professionally managed Indian multinational committed to total customer satisfaction and enhancement of shareholder value.

4. Importance of the role of business ethics in their growth process

Adani Enterprises in its group report emphasises sustainable development and proper balance between economic, social and environmental performance, in dealings with various stakeholders of the group, namely customers, investors, lenders, deposit holders and society. There is a stated code of conduct which they aim to follow:

- Provision of goods and services that are safe and contribute towards sustainability throughout their lifetime.
- To promote the well-being of all its employees.
- To respect the interest of and be responsive towards all stakeholders, especially those who are disadvantaged, vulnerable and marginalised.
- To promote and respect human rights.
- Businesses, when engaged in influencing public and regulatory policy, should do so in a responsible manner.
- Businesses should support inclusive growth and equitable development.

But over the years, the group which operates in sectors ranging from infrastructure to energy, has been embroiled in several controversies, including allegations of environmental violations, land grabbing and tax evasion. The group was accused of concealing losses and subsidiaries, inflating profit and using complex offshore structures to avoid taxes. Some of the other charges were over-invoiced imports to siphoning off money abroad. These issues do raise questions about corporate governance in India. Conglomerates in India need to be careful about:

- False accounting
- Sexual Harassment
- Data Privacy
- Nepotism
- Discrimination

Figure 9: Ethics followed by Adani Group

Source: www.adani.com

These are significant issues which face companies, but there are small daily decisions which lie with executives, managers and employees that are part of a company's 'ethical behaviour'.

L&T has by and large worked in the realm of respect in the workplace along with individual excellence and collaborative teamwork. Their aim is to accomplish goals and treat their colleagues and associates with dignity and respect, irrespective of caste, creed, gender religion, region, nationality, appearance, or any disability. They have a whistle-blower policy which encourages and strengthens investors' confidence by adopting transparent procedures and processes. Whistleblowing is a structured process which encourages and facilitates employees to report without fear, any wrongdoing or unethical practices, which may impact the image and financials of the company. Examples of wrongdoings for the company that should be avoided are:

- Forgery or alteration of documents
- Unauthorised alteration or manipulation of computer files
- Fraudulent financial reporting
- Pursuit of a benefit or advantage in violation of the company's interest.
- Misappropriation/misuse of a company's resources, such as funds, supplies or other assets.
- Authorising/receiving compensation for goods not received/services not performed
- Authorising or receiving compensation for hours not worked
- Improper use of authority
- Fraudulent insurance claims
- Disclosure of confidential information

The company did face debarment by the World Bank on 8th March 2013, for a period of six months in relation to fraudulent practices in a bank-financed healthcare project in India. This was a submission for a contract to supply medical equipment under the India-Tamil Nadu Health Systems project. The company submitted thirteen forged performance certificates, and these were a violation of the World Bank's 2004 procurement guidelines.

Both companies have in their existence faced violations of business ethics. Given the phenomenal rise of Gautam Adani in recent years, it has brought into focus, a number of violations with respect to the environment, human rights, incorrect valuations, and stock manipulation. L&T on the other hand, being a much older company, has weathered some ethical issues but by and large, has adopted and maintained a clean image sticking to basic business ethic practices. The rise of the Adani Group of Companies has led to their wages being much higher at the same level than L&T. Yet there seems to be a preference to work for the older and more stable enterprise.

5. CONCLUSION

Correct 'business ethics' are perceived differently by different companies. Both companies have claimed extremely stringent business ethics rules. Both, at some point in their existence, seem to have violated the rules that they formulated. L&T being a company in existence for a number of years seems to have by and large followed good practices. Adani Group of Companies, reaching great heights in a short period of time, seems to have several violations against various subsidiaries. If one looks at the percentage of violations with respect to the number of years in existence of the company, then definitely L&T has a much lower percentage than the Adani Group. Whether this result is due to the system of management and/or the number of years that the company has existed, does not seem too clear.

As India has opened the economy towards globalisation and liberalisation and has allowed the entry of foreign multinational companies and wants to attract investment in the form of FDI (Foreign Direct Investment), homegrown business conglomerates must follow international business ethics standards.

'Business ethics' has a very fluid definition because a large number of companies are attracted to violate their own stated rules for earning excessive profits. Governments all over the world, through various ministries and acts, have on their own, laid down rules and regulations with respect to proper business practices for all the companies that chose to set up production units in the country. Strict action is taken against violators. Thus, both the government as well as the companies need to be responsible for following best business ethics which is essential for the confidence of shareholders as well as for the image of the economy.

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