Indian conglomerates were shaped by their political and economic environment. Today they exert considerable influence on their environment, and some of them struggle to cope with the changes they have not equipped themselves to cope with. Examination of their connections, capital, customers, clans, corruption, and charity/corporate social responsibility—the six Cs—may serve as a useful road map for a self-audit to prepare themselves for even faster changes they are likely to encounter soon.

I. Connections
During most of the 20th century, the majority of conglomerates were created under the licence-quota raj before and after independence. Only those who could connect with the political and administrative elites were granted permission to engage in business at any significant scale. The monopolistic and monopsonistic power to make money was granted to the favoured entrepreneurs, who snapped up the opportunities when they arose. Careful business planning to create rational vertically or horizontally integrated structures was mostly missing. This higgledy-piggledy growth of such businesses across unrelated sectors of the economy gave rise to the early conglomerates in India. In the more competitive partial deregulated environment of the recent quarter century, these organisations suffered major stresses and loss of easy profits. Some have adjusted, while the others have either disappeared or may do so unless they change how they conduct their business.

**II. Capital**

Substantial amount of financial capital is needed to build and operate large businesses. In developed capital markets, such capital is contributed by the promoters, creditors, and equity holders through arms-length transactions based on a significant amount of audited information to buyers of securities at the pain of severe penalties for both the promoters as well as the auditors for incomplete or misleading information. Capital markets do not function well unless the threat of judicious disciplining of promoters and auditors is real. In Indian capital markets, the lack of disciplining is a weak link. Many multi-billion dollar conglomerates do not even publish their audited financial statements on their website. It is not easy for an outsider to discern from the financial statements how much capital their promoters actually put into the conglomerate. In this environment, capital itself has become a subsidiary outcome of the promoter’s connections—mostly with the state-owned banks. Some corporate promoters borrow massive sums of money from government banks with little or no collateral, and take a flight abroad, never to return. Even when they do not flee, the government seems to have little chance of collecting on this theft from collusion between bankers and borrowers, euphemistically labelled “non-performing loans”. For many of the largest
corporations in India, money is almost free, encouraging undisciplined empire building and conglomeration.

III. Customer demand

In a market economy, the customer is king. A major part of management responsibility is to manage and forecast demand, which serves as the starting point for planning throughout the organisation for capital budget, human resources, and production, etc. In conglomerates, especially the clan-owned and managed ones, there is not enough managerial bandwidth to pay sufficient attention to the prevailing market demand conditions, and to develop strategies for dealing with new challenges across a range of diverse markets in which conglomerates operate. The result is that conglomerates often fall behind competition in technology, product design, innovation, production methods, and pricing, and more nimble competitors overtake them and sometimes drive them out of the market. Although about 1,800 companies (of the 6,000 listed on the BSE) take tax deductions for research and development, Indian corporations have precious little innovation or patents to show for all the money they supposedly spend on research. Of about 47,000 patent applications filed in India in 2015-16, about 34,000 were by foreign corporations, and 1,884 by a single U.S. corporation alone. One might be forgiven for wondering if Indian corporations make consistently poor research decisions, or take unjustified tax deductions. And the other 4,200 BSE companies do no research or development.

IV. Clan and capabilities

The earliest conglomerates in India were, and largely remain, businesses controlled by families and clans. When the offspring have their parents’ passion and abilities to run the business, they do well. But business empires, too, succumb to the problem that has afflicted kings whose dynastic successors are not endowed with one or both of these qualities. In Japan, the institution of adoption developed to address this problem, but in India blood relationship has remained largely sacrosanct. Some clan patriarchs continue to control the corporation well past their use-by date, lowering morale and driving out talent. Filling the board seats
with relatives and friends without relevant expertise or experience deprives them of critical advice and reduces corporate governance to an expensive hobby.

The extraordinary success of the American corporations in the 20th century, and even the European and Japanese corporations after World War II can be attributed to professionalization of their top management through merit-based selection of the most capable individuals who are not only unrelated by blood, but also by race, religion, and national origin. Indian clan-controlled corporations have not invested in education and training of their human resources, to be able to tap into this massive pool of capabilities. Nevertheless, it is never too late to start building a brighter future.

V. Corruption

In the Indian corporation, distaste for what you give is far stronger than taste for what you keep. Consider a simple example: A businessman has one store and earns a pre-tax income of Rs 1,000, and pays Rs 300 in taxes by ‘cooking the books’ instead of paying the Rs 400 that is due; he gets to keep Rs. 700 in net income. He may decline an opportunity to open a second store because he does not have someone he can trust to ‘cook the books’ at the second store and keep his secret. However, in doing so, he foregoes the opportunity to increase his take-home income from Rs 700 to Rs 1,200 (Rs 1,000x2-Rs 800 in honest taxes). What matters is the amount he takes home in net income, and not what he pays in taxes. Yet, many Indian businesses spend so much effort minimising taxes by means fair or foul, that financial matters must be confined to a tight group of trusted confidants—usually the members of the clan—even at the cost of foregoing more remunerative opportunities for growth. Effectively, they choose to pay no or low taxes on a smaller income-base instead of paying a larger percentage of a much greater income-base which would leave them with an even larger net income. Shifting attention to what you keep, from what you pay in taxes, can be quite profitable.

VI. Charity/Corporate social responsibility

Some Indian conglomerates, especially the older clan-owned ones, have continued an ancient and glorious tradition of making significant contributions to
charity—education, hospitals, guesthouses for travellers, temples, and support for the poor. While the good work of these corporations continues, and has even expanded in many respects, there is a new class of businesspersons to whom such “non-profits” are just another way of making money. I have yet to find a college or university in the world that has been able to devise a way of delivering quality higher education at a profit. Future generations will not forgive the Indian private corporations and investor community and its federation for setting up diploma mills under the guise of higher education. While doing positive work for charity is admirable, stopping the harm under the guise of charity is a good beginning. The most important act of corporate social responsibility is for each of us to pay our fair share of taxes.

A self-audit along these six dimensions may be a useful exercise to help the management of all corporations, even if they are not conglomerates.

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