

CURRENT SCIENCE

Volume 96 Number 2

25 January 2009

EDITORIAL

Good governance, accountability and responsibility

As an avid reader of newspapers I have always turned first to the sports pages, after a glance at the front page reassures me that no major disaster has befallen the world. The 24 hour TV news channels and the Internet have diminished the novelty of the morning paper. The print medium seems important only when a careful reading and re-reading is necessary. Innocent of the ways of high finance, business and industry, I have generally avoided the financial pages and the specialist financial newspapers. Curiously, I was once asked to write about Linus Pauling, shortly after his death. My unrewarded effort occupied a considerable portion of the centre pages of the *Economic Times*; a piece that I suspect was largely unnoticed and unread. Two financial newspapers are now delivered to my doorstep, on the presumption that those who head major institutions must be literate in the ways of high finance. For the last few months however, economics, financial institutions and corporations have captured the attention of lay persons, in a manner that could scarcely have been anticipated. The collapse of investment banks, the rumours of impending troubles at major conventional banks, some of which appear to have lent large sums of money to inherently risky enterprises, the turmoil in the stock markets and the loss of employment in corporations as recession takes hold, have brought finance to the front pages. The extraordinary happenings at Satyam Computers, an iconic company in the brave new world of information technology, have made for riveting reading. The fall from grace of a once celebrated leader of industry has been amazingly rapid, sobering and, at times, even saddening. The newspapers and magazines have now provided tutorials on auditors, internal and external, the roles of independent directors of companies, balance sheets with fictitious entries and the mysterious ways in which large sums of money can be spirited away, with little hope of easy recovery.

A notable feature of the Satyam episode is the sudden interest it has raised in the functioning of corporate India. Even as the economy has boomed, private industry has viewed with some disdain, sluggish public institutions which are mired in bureaucracy and slow to respond to the needs of a modern, rapidly expanding economy. Government institutions have often been plagued by petty corruption and inefficiency. Corporates seem agile and

accountable to management boards and shareholders. The phrases 'corporate governance' and 'corporate social responsibility' have emerged into public view, with the growth of the new wave industries in information technology and biotechnology. Neither of these terms seemed popular decades ago when some of the standard bearers of Indian industry engaged with society in constructive philanthropy. In a curious twist, Satyam won two awards last year which celebrate the company's achievements in corporate governance (Golden Peacock Global Award) and corporate social responsibility (UK Trade and Investments India Business Award). Clearly, the knowledgeable watchers of the business scene had little inkling of the brittleness of Satyam's façade. There is a parallel here in the world of science. Awards, peer recognition and public acclaim have sometimes gone to scientists who have been guilty of extravagant claims and fabrication of results. The examples of the cases at the erstwhile Bell Telephone Laboratories and the Korean stem cell scandal are still fresh in memory. Awards and rewards are sought and prized, but are not always a true indicator of honest achievement. The tendency of well meaning bodies to recognize and applaud high performers after a cursory evaluation process can sometimes result in embarrassment.

The Satyam saga has led to the expected breast beating about the failure of the Indian regulatory system, which monitors the functioning of corporations. There is the often unstated assumption that regulators elsewhere, particularly in the West, do better. The critics forget that some of the most brazen and visible financial scams in recent times have occurred in the United States. The latest investment scandal has been dubbed the 'Madoff mystery'. Even a financially naïve reader like me could immediately appreciate the simplicity of a scheme 'in which new capital raised was partly used to pay off old investors so that they could earn a stable and reasonable return, independent of fluctuations in the market' (Chandrasekhar, C. P., *Frontline*, Jan. 14, 2009, pp. 47–48). This strategy must, of course, eventually unravel revealing a fraudulent enterprise. There is an old principle that is often forgotten in investment; it is dangerous to be seduced by high returns if one does not understand the process by which apparently huge profits are made.

A similar unease must be felt when laboratories produce a succession of spectacular results which appear impossible in other hands. Financial fraud and misconduct in science may indeed be compared. In the former, there is an outcry from investors whose money has been misappropriated and misused. Modern financial fraud appears to be a sophisticated exercise practised by highly educated individuals. Bank robbers seem to practice a more straightforward craft and achieve the same result. Detection necessarily results in criminal proceedings. Stealing money has always been a crime. The ends of justice and the demands of accountability are met when the guilty are imprisoned. In science, the detection of misconduct and the penalties to be imposed are less well defined. The sense of injury is felt more by those who believe that the frailties of human nature do not extend to scientists. When allegations of fraud in scientific research arise there is the inevitable outcry that the Indian system of ensuring transparency of investigation and oversight is far inferior to the systems in place in the West. Curiously, even in the recent Satyam case the same charge has been made against the Indian financial regulators.

Since I suffer from the weakness of drawing parallels between the world of science and the happenings elsewhere, my attention was quickly drawn to a provocatively titled article 'It's in the DNA', addressing Satyam's fall from grace. The author, a pillar of India's biotechnology industry, argues that 'more regulation is not the answer to the Satyam scam' (Kiran Mazumdar, *The Times of India*, Jan. 15, 2009, p. 14). Her thesis is compelling: 'I am tempted as a biologist to draw parallels between the diagnosis and treatment of disease with that of regulating against bad governance. In pharmaceutical parlance, biomarkers are used to evaluate a disease, whether it is at an early stage or advanced stage. Perhaps we need to develop markers that provide us with early warning signals of poor or inadequate governance.' Auditors are the key in institutions, if financial impropriety is to be detected before it gets out of hand. The author draws a parallel to cancer, where late detection leads to metastasis. Companies and institutions can succumb if the cancer of fraud is allowed to go undetected and untreated. Mazumdar notes 'that good governance can add long term value to an organization and that there is clear evidence that poor governance is a value destroyer'. Her conclusion may be

of some interest to the growing tribe of genome researchers: 'I believe that the answer lies in deciding the good and bad genes that make up the DNA of any company'. I could not help wondering if there was an intrinsic weakness in corporations dominated by families; a defect that amplifies with the generations. Even in universities and research institutions the deleterious effects of 'in-breeding' are apparent, when the accumulation of the academic offspring of a once productive and capable leader can result in perceptible decline.

It is tempting to draw parallels between the transgressions of scientists and wrongdoing in the world of commerce. Plagiarism is the simplest and most easily detected offence in science, analogous to forgery although the latter can have more dramatic consequences. Fabrication of data is conceptually similar to the non-existent fixed deposits that appear as assets in creatively produced balance sheets. There are many different ways in which results have been fabricated in the celebrated cases of scientific fraud. Undoubtedly, there are multiple ways in which financial statements can be doctored. Indeed misconduct in science and financial fraud differ significantly only in their end effects. In science, perpetrators are driven by blind ambition. When misconduct is detected there is usually a sense of moral outrage, a feeling that the purity of science has been sullied. In the world of business fraud seems an almost inevitable result of insatiable greed. Unfortunately, as science and industry move closer the profit motive can sometimes obscure values even amongst the most capable of scientists. Ethical barriers can be breached when commercial interests are dominant. There have been several instances in the area of clinical trials and the marketing of new pharmaceuticals. In these situations good governance and social responsibility are more often observed in the breach.

Accountability, transparency, responsibility and good governance are terms that are easily used. It is much harder to ensure that they are indeed understood and applied in the running of corporations, institutions, states and countries. Ambition and avarice are not uncommon qualities. Together they form a perfect recipe for disaster when present in those who hold positions of responsibility.

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