Chartered Institute of
Management Accountants

# Global perspectives on governance: lessons from east and west

While the core principles of governance are the same throughout the world, the Asian model places particular emphasis on trust and relationships. This paper discusses the key differences between the western and Asian approaches to help business leaders explore the best aspects of both.

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## Conclusions

1. The corporate governance model that's familiar in Asia, Africa and most developing nations places strong emphasis on trust and relationships. This can be beneficial for stakeholders: the typical pattern of ownership in businesses means that there can be a longer-term view of an organisation's success compared with that in a western company. But the system is potentially vulnerable to corruption and cronyism. It can also be difficult to implement basic control procedures.

2. The prestige of what can be broadly termed the western governance model has diminished in the aftermath of the financial crisis. This model has driven globalisation and has emphasised a combination of legislation and standards as well as transparency, with a focus on developing appropriate structures, processes and frameworks. This is widely understood and helps to create a level playing field. But major financial failures over the past two years, such as that of Lehman Brothers, have shown that there are limits to what can be done to tighten checks and balances. A new emphasis on the behavioural aspects of governance is overdue.

3. Both models have their strengths and it is important to understand the benefits and drawbacks of each. CIMA's model of boardroom leadership is useful in illustrating the importance of both behavioural and structural issues in achieving good governance. One particular area where both western and Asian models remain unduly weak is in creating a culture that allows people in authority to be challenged constructively.

4. The key indicator of good governance in an organisation is that it's sustainable in the long-term. There should be confidence that the business model will deliver this, using appropriate risk mitigation, and that performance indicators and incentives will reinforce the desired culture and behaviour.

5. Management information that's relevant, accurate and up-to-date is a crucial success factor for all organisations worldwide. Professionally qualified management accountants, bound by a code of ethics, have a vital role in providing and demonstrating the long-term strategic value of high-quality management information.

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## About CIMA

CIMA, the Chartered Institute of Management Accountants, founded in 1919, is the world's leading and largest professional body of management accountants, with 172,000 members and students operating in 168 countries, working at the heart of business. CIMA members and students work in industry, commerce and not-for-profit organisations. CIMA works closely with employers and sponsors leading-edge research, constantly updating its qualification, professional experience requirements and continuing professional development to ensure that it remains the employers' choice when recruiting financially trained business leaders.

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## Introduction

Corporate governance can be defined as the way in which organisations are directed and controlled. Although practices may vary, the core underlying principles of governance are the same throughout the world. They strive to protect the rights of shareholders, to create an environment of transparency and appropriate disclosure, and to define the roles and responsibilities of stakeholders in running a company. These principles are necessary to establish a stable and competitive business and, in the case of publicly quoted companies, an attractive destination for investment. National economies also benefit from good governance as a critical component for safeguarding wealth, employment and GDP growth.

CIMA has long advocated a holistic approach to corporate governance wherever it is practised. Its philosophy of enterprise governance emphasises that all organisations need to focus on both conformance and performance. The measure of good governance in a company should be whether the board of directors is truly focused on the long-term sustainability of the organisation. There should be confidence that the business model will deliver this, with appropriate risk mitigation, and that performance indicators and incentives reinforce the desired behaviour.

Broadly speaking, transparency and agreed rules of engagement are paramount in the west. The focus is on rules (including principles based accounting standards and codes of practice as well as legislation) and transparency, creating a level playing field for competitors. This western model has led globalisation, produced most of the strongest multinationals and is the bedrock of the world's developed economies. Understandably, it is widely viewed as best practice. Major corporate failures have historically led to the tightening of governance codes and legislation in order to improve transparency and accountability. But, in light of the disproportionate impact of the global financial crisis on western institutions, there is now widespread recognition that there are limits to what such measures can achieve. There is now much more emphasis on behavioural issues.

Lawyers for American companies spent hundreds of billable hours drawing up contracts to which no one ever referred. Their Japanese counterparts engaged in complex business relationships with no formal agreements at all, or ones that covered a single sheet of paper. But the commercial relationships that emerged in Japan's car industry were more successful in securing component reliability and just-in-time inventory than those hammered out by the hard-nosed negotiators of Detroit.

In Asia, Africa and most emerging markets the approach to business is somewhat different: relationships sometimes take precedence over transparency. This has its roots in systems in which regulations are not always strongly enforced and legal redress can take years or even decades. In this environment business is based on trust and loyalty. The practical emphasis on relationships prevails among most businesses in these regions, yet many are formally adopting western practices in their journey towards globalisation at the very time that the financial crisis has cast a shadow over the western governance model.

John Kay, a leading British economist, recently analysed how the two approaches played out in the car industry. In a recent column for the *Financial Times*, he observed: 'Lawyers for American companies spent hundreds of billable hours drawing up contracts to which no one ever referred. Their Japanese counterparts engaged in complex business relationships with no formal agreements at all, or ones that covered a single sheet of paper. But the commercial relationships that emerged in Japan's car industry were more successful in securing component reliability and just-in-time inventory than those hammered out by the hard-nosed negotiators of Detroit.'

Business leaders in the east and west who understand the differences and can extract the best from both styles may stand to benefit. On the other hand, underestimating the challenge can cause problems. Some western companies stumbled as they expanded into Asia when their rules-based processes clashed with the local culture, for example. At the same time, eastern companies aspiring to become powerful multinationals found that their personal networks became strained and ineffective when stretched across vast distances and different cultures.

The informal nature of Asian stakeholder/company interaction can produce real and lasting benefits for stakeholders that equal or exceed those offered through more formalistic approaches based on "rights".

This report takes a closer look at the eastern model and analyses its advantages and disadvantages. It also discusses the role of management accountants in finding a common ground between the models. Many would agree that the challenge for Asian companies is to retain the advantages of individual relationships while finding tools to compensate for the disadvantages. The challenge for management accountants is to recognise the benefits inherent in the eastern model and to guide a strategy that mitigates the dangers without diluting these benefits.

Now that the western model of governance looks far more fallible than it did before the global financial crisis, the time is ripe for examining the model that helped to insulate Asian companies from the worst of its effects. If the western model were to lose its pre-eminence and the Asian alternative were to gain followers globally, what else would be lost and gained? The basis of such a model could be CIMA's boardroom leadership framework, which stresses the importance of people and behavioural issues as well as appropriate frameworks, processes and structures. This is considered in a subsequent section entitled 'Balancing the two models' (page 7).

## The significance of individual relationships in Asia

Individual relationships have been an integral part of business for centuries throughout Asia. Entertaining and getting the measure of your prospective business partner were often the first steps in making a deal, well before benefits and money were even mentioned. Relationships in companies could trump performance and leaders were greatly respected – their word was law and their decisions indisputable.

Many such cultural differences arise from the fact that western cultures are built on rules and transparency, while most of the world's other cultures are relationship based. Westerners trust rule based institutions; others trust their friends and family far more and are therefore especially keen to cultivate strong relationships.

While giving individual relationships such weight creates difficulties, it also brings advantages that can easily be overlooked. A 2003 white paper on corporate governance in Asia by the Organisation for Economic Co-operation and Development (OECD) noted: 'The informal nature of Asian stakeholder/company interaction can produce real and lasting benefits for stakeholders that equal or exceed those offered through more formalistic approaches based on "rights".' The paper also noted that, with the advent of globalisation, there was an increasing tendency in Asia towards creating more formal corporate structures.[2]

Furthermore, John Hooker, Professor of business ethics and social responsibility at the Tepper School of Business, discussing various shades of nepotism and cronyism, recently wrote: 'Many such cultural differences arise from the fact that western cultures are built on rules and transparency, while most of the world's other cultures are relationship based. Westerners trust rule based institutions; others trust their friends and family far more and are therefore especially keen to cultivate strong relationships.'[3]

When doing business with Asian partners, western companies are often hindered as they grope through an unfamiliar landscape. Companies and business units in Asia are often run by the founders and their relatives. Supply contracts tend to go to trusted friends, while knowing the right person in the right place could mean a difference of months, if not longer, in securing a licence or a key meeting.

Jean-Luc Chéreau was already an old hand in Asia before moving to China in 1999 to run French retailer Carrefour's operations there, but he still faced surprises. When he arrived in Shanghai, the company had five contracts in hand for new stores in the country, but he noticed progress with one local partner was slow. In an interview with McKinsey Quarterly in 2006 he explained: 'Finally my assistant told me: "Just because he signed a 20 year contract two years ago with your former boss – a person who is not you – does not mean he will respect the contract." That was a big shock to me: the contract was notarised and everything. But we started to renegotiate article by article.'[4]

The reasons that relationships can still mean more than legal contracts are rooted in cultures that value family ties and, by extension, the bonds of friendship highly. Also, until recently in some Asian countries, a political and legal climate in which governments and bureaucracies were seen as unfair reinforced these bonds by making trust a valuable commodity. Asian markets remained immune to the obsession with shareholder value that swept western markets in the 1980s and peaked in the 1990s, while few family-owned businesses in the region succumbed to the flood of hostile takeover bids that had overwhelmed their western equivalents. The OECD white paper observed that about two-thirds of businesses in Asia were family-controlled in 2003 (defining control as at least a 20% stake). In addition, national governments still own significant stakes in a wide range of Asian businesses, including many publicly traded companies. This has imposed another web of key relationships.

When a Chinese company, whether a state-owned enterprise or a private company, makes a decision it always comes into so many issues, and the final outcome will be determined by measuring the impact on people.

These factors have combined to reinforce the importance of relationships among Asian companies, including those in Japan, the most developed economy in the region. In his book *Keeping Better Company*, Jonathan Charkham lists three key concepts that govern Japanese culture: a sense of obligation based on relationships, the importance of family (including the corporate family) and the need for consensus.[5]

'When a Chinese company, whether a state-owned enterprise or a private company, makes a decision it always comes into so many issues, and the final outcome will be determined by measuring the impact on people,' says Ellena Au FCMA, Chief Executive of KanTec Business Consulting in Beijing. 'Sometimes we say that Chinese companies are not scientific or fact based, because they're always considering so many people issues. These considerations make it more difficult than it is in the west to be sure where you look at data, sales growth, profit growth etc.'

Sometimes we say that Chinese companies are not scientific or fact based, because they're always considering so many people issues. These considerations make it more difficult than it is in the west to be sure where you look at data, sales growth, profit growth etc.

By placing so much emphasis on individual relationships, Asian firms find it harder to implement procedures that are considered best practice in the west, particularly those that increase transparency – e.g., performance based evaluations. Their employees can view even basic control tools as a lack of trust in them.

One of the most prevalent problems is a reluctance to question decisions made by a superior. Obedience to father figures is easily transferred to obedience to anyone in authority. This is exacerbated in some companies where the chairman is the founding patriarch. In his 2008 book *Outliers*, Malcolm Gladwell cited an example in which such deference to authority had fatal consequences. In the 1980s and 1990s national flag carrier Korean Air had one of the world's worst safety records and its aircraft suffered a series of fatal crashes. Gladwell attributes the problem, in part, to the inability of junior flight officers to challenge a captain's actions, even when disaster was imminent.

A purchasing agent in Taiwan may award a contract to an old friend rather than the lowest bidder because the friend can be trusted to deliver a good product.

'Among Korean Air flight crews, the expectations on layovers used to be that the junior officers would attend to the captain to the point of making him dinner or purchasing him gifts,' Gladwell wrote. 'As one former Korean Air pilot puts it, the sensibility in many of the airline's cockpits was that "the captain is in charge and does what he wants, when he likes, how he likes and everyone else sits quietly and does nothing."'[6] While Korean Air was able to change this mentality, partly by switching to English as its working language, a similar culture is still prevalent in many Asian companies.

Asian society's lack of transparency creates a fertile ground for corruption, too. Without open tenders or other checks and balances, for example, the temptation to offer incentives such as kickbacks to seal a deal can be overwhelming. The same is true for employees whose success rests on their relationship with their superiors. Even so, Hooker believes that what westerners like to attack as corruption might not be a black-and-white issue. It may actually be good business, given the Asian context, he argues.

'We typically identify corruption with side-payments, cronyism and nepotism, but all those activities can be entirely legitimate when practised responsibly in the right cultural context,' he wrote. 'A purchasing agent in Taiwan may award a contract to an old friend rather than the lowest bidder because the friend can be trusted to deliver a good product. That kind of responsible cronyism (known as guanxi) has been a foundation of business in Taiwan [and indeed in East Asia as a whole] for centuries. It becomes corrupt only when the agent favours friends simply because they are friends, rather than because they can be trusted to do the job right.'[3]

Satyam Computer Services, once one of India's most respected outsourcing firms, went out of business after a scandal that may have been prevented had there been more transparency or questioning within the company. In early 2009 its founder and chairman, B Ramalinga Raju, resigned, saying he had hidden a $1bn cash shortfall for years (see case study, page 9). The scandal exposed 'a patriarch willing to go to any length to keep control, a web of cosy relationships among members of a seemingly untouchable elite and a governance system that failed to keep either in check', according to a report in the *New York Times*.[7] The article quoted Ajay Gandhi, an accountant in Satyam's home base of Hyderabad, as saying that even outside accountants were unwilling to question the company's chairman, whom they considered to be their client. 'Raju would have been the owner, so what he wanted here would have been done,' Gandhi said.

## Benefits of trust

Criticism of the eastern corporate governance model has been blunted by the simple fact that Asian companies, even those in the financial services industry, have generally weathered the global financial crisis better than those in the west. The most significant impact they have felt came not from risky lending, but from declining demand from consumers in North America and Europe. There was no Asian Lehman Brothers splashed across the headlines, with revelations about the exploitation of Repo 105 accounting procedures to shift $50bn off the balance sheet. Instead, China's biggest banks – Industrial and Commercial Bank of China, China Construction Bank and Bank of China – are now the world's first-, second- and third-largest banks respectively by market capitalisation.

> CEOs have the social responsibility to provide leadership and values, not just maximise shareholder value.

The reasons that Asia remained relatively isolated from the shocks of the financial crisis go well beyond corporate governance: governments such as those of China and Singapore were able to respond quickly; immature capital markets had yet to move into riskier and less understood debt vehicles; and strong domestic credit demand limited exposure to sub-prime loans and their variants in the US and elsewhere. And there was another contributory factor: the proprietary and even patriarchal link between Asian corporate leaders and their businesses instils a longer-term view than that held by many western executives of a company's success. Asian business leaders tend to see themselves as custodians of valuable property that will be passed on to future generations. This view inspires a more cautious approach to risk, a deeper understanding of the business itself and a willingness to sacrifice short-term gains for long-term health. 'There's no doubt in my mind that this approach creates a focus on the long-term,' says Charles Tilley, CIMA's Chief Executive.

Such stewardship can go beyond the company itself and encompass wider society. With their fixation on shareholder value, many western companies cannot entertain the view that the ultimate purpose of business is not to create profit, but to serve society. Profit is simply the fuel needed to continue serving society. Jack Welch, credited by many with triggering the west's intense focus on shareholder value in a speech he made in 1981 as CEO of General Electric, said last year that, by itself, 'shareholder value is the dumbest idea in the world'.[8] And the big problem in the west is that share ownership in some countries has become so dispersed, with a small proportion of shareholders willing to exercise responsible stewardship, that we now have what's been described as the phenomenon of 'ownerless corporations'.

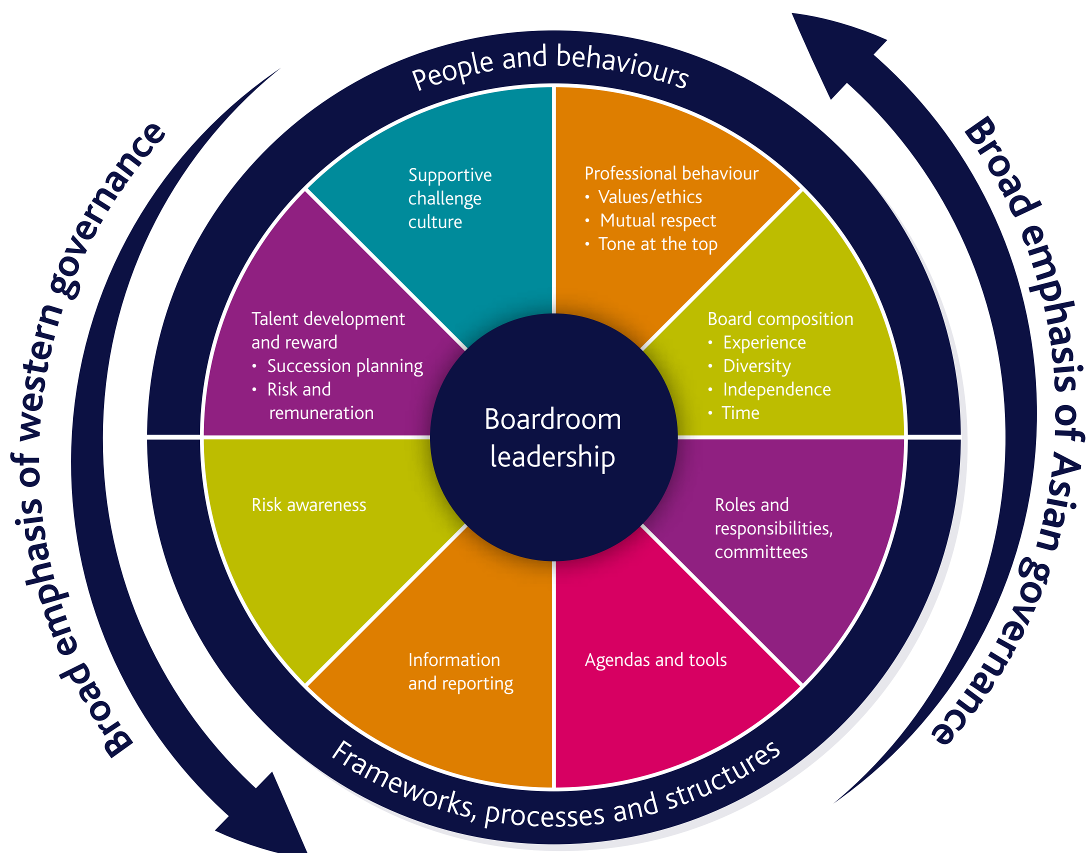
Ho Kwon Ping, Executive Chairman of Singapore based firm Banyan Tree Holdings (see case study, page 10), says: 'If you flip through all the business textbooks nowadays, you see terms such as "maximising shareholder value" "economic profit" and so on. But they never mention that, in a world where there's no more communism or socialism and where capitalism is the most powerful driver of economic growth, well-being and development, the fundamental mission of business is to make a better world. CEOs have the social responsibility to provide leadership and values, not just maximise shareholder value.'[9]

CIMA's Charles Tilley has a similar perspective. 'The key responsibility of company boards, wherever they are located, is to ensure the long-term sustainability of their businesses. The recent financial crisis in the west has led many to question whether the heavy focus on maximising shareholder value is the best way of achieving this goal and to reconsider the role of business. There is much the west can learn from the eastern approach, in particular the emphasis on the long-term and the view that the fundamental purpose of business is to help improve the well-being of the wider community. If in running a company, the aim of management is purely short-term shareholder value creation, the enterprise may wind up failing to build a sustainable business or contributing to society generally' he says.

John Kay has observed competitive advantages derived from structures of implicit contracts with suppliers, employees and customers. In his FT column he cited the renowned British retailer Marks and Spencer as an object lesson in what happens when a company turns its back on these in pursuit of shareholder value. 'If the success of M&S demonstrated the power of relational contracting, the company's decline illustrated a process that swept across business – and above all the financial sector – from the 1980s,' he wrote. 'The substitution of transaction-oriented dealings for relationship contracting added to profitability in the short run, but in the long run it eroded relationships that had been the underlying source of much of that profitability.'[1]

## Balancing the two models

Giving relationships pre-eminence can expose fault-lines in governance: failures and fraud can go undetected, systems that lack transparency become more susceptible to corruption and the rights of minority shareholders are jeopardised, for instance. But, as the global crisis has shown, the western model also carries its share of risk, including an intense focus on short-term shareholder value that can overshadow the prospects of long-term sustainability. The weaknesses of both models must be addressed as the global economy enters a new era, and their advantages preserved. Shareholder value and trusted relationships are not exclusive. They can (and possibly should) co-exist in a governance model that balances the two approaches. CIMA's boardroom leadership framework provides a useful basis for understanding the relative merits of the two models (see panel).



## The CIMA boardroom leadership framework

This was designed to illustrate how a number of critical factors are necessary to achieve board effectiveness – and, by implication, good governance.[10] It can be applied to understand the Asian and western corporate governance models.

The diagram is divided into two halves:

- people and behaviour
- frameworks, processes and structures.

Broadly speaking, the Asian model has placed relatively more weight on the people and behavioural aspects of governance, while the western model has tended to address structural and process issues. (Note that this is not a hard and fast distinction, and also that creating an organisational culture that allows leaders' decisions to be questioned constructively is a challenge under both models).

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But, as we have seen, the financial crisis is leading to a reappraisal of western approach: more attention is being paid to behavioural issues. And, while the Asian model emphasises relationships, it is important to recognise the need for supporting tools and frameworks to ensure that decisions are made for sound reasons – i.e., whether work will be done properly – and not purely to maintain a relationship.

The main purpose of the framework is to illustrate the mutually reinforcing value of both dimensions of good governance and how the benefits of the western and Asian models can be applied to each other.

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Western-style rules and transparency have been shown to aid corporate governance, although corporate governance by itself cannot ensure success, of course. In Asia, where so many businesses are controlled by majority shareholders, companies' fortunes are more directly intertwined with the interests of their 'owner-shareholders'. Minority shareholders, on the other hand, can be classed as 'investor-shareholders', who have shorter attention spans and may simply be looking for quick returns.

These two groups have divergent interests. Investor-shareholders have only one stakeholder role – that of shareholder – and they are generally seeking only personal benefits. Owner-shareholders are possibly more accepting of multiple stakeholder roles, as they may feel a more direct responsibility towards business associates, employees and the community, at which level personal relationships play an important role. But beyond the relationship level there may be a diminished acceptance of stakeholder responsibility, such as towards the environment, which is where the western governance model may be more effective through stricter regulation and enforcement.

> A key task of the professional accountant in business is to demonstrate in practice the long-term strategic value of the right information.

Yet, while the relationship based model promotes longer-term thinking, rules and transparency are essential in helping to prevent the excesses of individuals, especially those at the top of the corporate ladder. 'Old-boy networks', as they are known in the west, can often hide dealings that are illegally detrimental to competition, customers and community alike. Many western standards and laws have been set in place specifically to break these opaque networks.

In practice, many multinationals from the east and west have approached finding a balance by mixing employees from the home office with local staff, particularly in senior roles. Managed badly, this structure can create damaging conflicts between expatriate and local views. Managed well, it can create a healthy tension that brings out the best of both views. Sophisticated recruitment policies are crucial to crafting a functional team, as are performance metrics that are customised for local contexts.

The difference may be that in the west they face pressure from the executives to show bigger returns for stock markets, whereas in the east they may be under pressure from a powerful majority shareholder to pinch profits from minority shareholders.

It is important not to overlook the powerful and fundamental role of management accountants in providing the most relevant and accurate management information to business leaders, wherever the business is located and however it is governed. One possible danger in a top-down management culture is that the integrity of the management information is compromised because people are afraid of telling their bosses anything they don't want to hear. The professionally qualified accountant, bound by a code of ethics, has a duty to resist this temptation. A key task of the professional accountant in business is to demonstrate in practice the long-term strategic value of the right information.

In helping companies in both the east and the west find this balance, management accountants must be careful not to impose haphazardly western models that have their own intrinsic faults. Instead, they would be wise to understand the benefits that relationship based models offer and help to create a system that mitigates the disadvantages and keeps the advantages through appropriate financial plans, incentive structures and information systems. Those who are successful will build tremendous shareholder value.

Wim Van der Stede, CIMA professor of accounting and financial management at the London School of Economics, summarises this idea pertinently. 'I don't know of a senior finance professional who is not under pressure from others around their organisation. The difference may be that in the west they face pressure from the executives to show bigger returns for stock markets, whereas in the east they may be under pressure from a powerful majority shareholder to pinch profits from minority shareholders. But they are always between a rock and a hard place. The rock and the hard place are just different parties.'

## 1. Case study: Satyam Computer Services

At the end of 2008 Satyam Computer Services was one of the darlings of India's IT outsourcing sector. It was the country's fourth-largest IT services company, with annual revenues of well over $1bn. Its clients were spread across the globe and included a healthy swathe of Fortune 500 companies. The firm was winner of the World Council for Corporate Governance's Golden Peacock Award and a few years earlier Ernst & Young had named Satyam's founder and chairman, B Ramalinga Raju, Entrepreneur of the Year.

That all changed on 7 January 2009, when Raju resigned, confessing to hiding about $1bn in cash shortfalls. In a letter made public, Raju admitted that he had been fixing the books for seven years. When a deal to buy his sons' development companies fell through, the effort was no longer tenable. He wrote: 'It was like riding a tiger, not knowing how to get off without being eaten.'

In the immediate aftermath, Raju, his brother and the company's chief financial officer were jailed on charges related to the fraud. The company was sold to Tech Mahindra in a public tender and its name changed to Mahindra Satyam. Satyam Computer Services was no more.

A year after news of the scandal broke, Arun Duggal, former CEO of Bank of America in India, wrote that there had been 'a steady improvement in the functioning of boards' in India and that independent directors had become more involved in overseeing the affairs of their companies and protecting minority rights. Duggal also praised the government's effort to create voluntary guidelines. 'The Satyam fiasco, although very painful, has resulted in actions to improve the corporate governance in India, but there remains much more to be done,' he wrote.[11]

## 2. Case study: Banyan Tree Holdings

Banyan Tree Holdings, a Singapore based leisure group, began life in 1994 when founder Ho Kwon Ping opened a luxury holiday resort in Thailand in a bid to move his family business away from contract manufacturing. At the time he was quoted as saying that was seeking a business that could be built on brand reputation and in an industry that would not easily be taken over by Chinese companies.

Despite the crises that pounded Asia's tourism industry, including economic downturns, the SARS epidemic and terrorism, the company quickly expanded its network of resorts, spas and hotels, eventually branching out into luxury consumer labels. Banyan Tree became 'one of the world's most lauded luxury boutique-hotel brands,' according to the Wall Street Journal. Revenues in 2008 were $293m, down slightly from a record year in 2007, largely because of the closure of Bangkok's international airport owing to political unrest. Among its portfolio, Banyan Tree counted 25 hotels and 68 spas in 23 countries, with plans to expand further over the next four years.

Throughout his tenure, Ho has managed with a very personal style, visiting with employees and customers regularly. In a 2008 column for Singapore newspaper *The Straits Times*, he wrote: 'As East Asia emerges as a major economic region, it should not simply adopt the Anglo-American or European models, but create its own alternative. The common, recurring socio-ethical tradition of East Asia is its communitarian, family-focused webs of mutual obligations. This communitarianism can, if thoughtfully enhanced, nurtured and developed, replace the highly individualistic Darwinian ethos of Anglo-American capitalism or the state welfarism of Euro-capitalism.'[12]

He continued: 'Of course, critics will argue that this neo-Confucian capitalism is compatible with crony capitalism, as the 1997 Asian financial crisis highlighted. They have a point. But the flaws of East Asian culture do not negate the need to develop a socio-cultural alternative to the Wall Street ethos. Indeed, they only make more urgent that East Asian thought leaders refine and redefine neo-Confucian values.'

## 3. Case study: Toyota

Toyota is an interesting example of an Asian company that has run into recent problems – arguably because it lost touch with its traditional strengths.

Founded in 1933, Toyota became the world's largest car maker by sales in 2008, overtaking General Motors in the process and building a 12% share of the global car market. It has long been regarded as one of the world's most admired companies and has built a reputation for engineering excellence based on a philosophy known as the Toyota Way. At the heart of this is a long-term approach to problem solving even at the expense of short-term goals. Through its development of such concepts as lean manufacturing and just-in-time inventory management, Toyota has had a profound influence on manufacturing throughout the world. With the Prius, it also created the first hybrid car, setting standards for others to follow.

However, more recently, its reputation has been tarnished by the recall of eight million cars due to mechanical failures which US regulators believe have been responsible for over 50 deaths.

Commentators have suggested that Toyota's push for robust cost-cutting and rapid expansion since 1995 put the company under too much strain. Toyota boasted $10bn in savings over six years up to 2005. It then went even further by slashing the time from design to production to about 12 months compared to the industry average of 24-36 months. In the end, something had to give – and that was quality. A US parts supplier, on inspecting a Toyota Camry in 2007, was, for example 'surprised by how much the traditional Toyota craftsmanship had been watered down by years of nips and tucks'. Toyota's former top US executive recently argued that the company had lost its customer-first focus as it had been effectively been hijacked by 'anti-family, financially oriented pirates'.

Earlier this year, the grandson of the company founder admitted to a US congressional committee that he feared that the company had grown too quickly. He said, 'Priorities became confused, and we were not able to stop, think, and make improvements as much as we were able to before'. There are early signs that Toyota's sales are rebounding in response to substantial discounts, but there is little doubt that Toyota executives will be looking to recapture the traditional virtues of the Toyota Way.

## 4. Case study: Tata Group

Since its founding 142 years ago, the Indian based Tata Group has become one of the world's largest conglomerates – or 'family' as its own executives prefer to call it. It is now a $70.8bn commercial enterprise which employs 350,000 people in 80 countries across a wide array of business sectors including cars, steel, hotels, IT and tea. The Tata name is becoming more widely known globally in the light of recent high profile acquisitions such as Jaguar Land Rover and the Anglo-Dutch steel company, Corus. It is currently in its fifth generation of family stewardship and is respected for its adherence to strong values and ethical principles.

The distinctive feature about Tata is its commitment to investing in community and human relationships. Indeed, the community is regarded as the very purpose of Tata's existence. All the constituent businesses in the group earmark part of their operating expenditures to social, environmental or ethical programmes. In 2009, social expenditure was over $159m.

Since the early 1990s, Tata has undertaken an ambitious programme of global expansion in response to the opening up of the Indian market to foreign investment and the removal of exchange controls. This has not been without its challenges, for example, managers are having to apply their expertise to labour relations in non-Indian markets. Tata was criticised for the way it dealt with the closure of a Jaguar Land Rover factory in the UK.

Nevertheless, Tata appears to have emerged relatively strongly from the recent financial crisis. However, it will be interesting to see whether Tata can continue to maintain its global expansion strategy while sticking to its core founding values. If it succeeds, it could provide an example for other companies seeking to run sustainable, responsible businesses.

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