Crony Capitalism in India
The Palgrave Studies in Indian Management series, in association with the Indian Academy of Management, publishes books which are designed to inform and inspire academics, practitioners, and anyone else with an interest in understanding the issues involved in management of organizations in India.

Since the economic reforms began in the early 1990s, the Indian economy has been growing at a steady pace, and the country has rightfully assumed its place among the leading economies of the world. Indian organizations are increasingly going global and setting up operations and/or acquiring organizations in different parts of the world. At the same time, multinationals from around the world have made a beeline to India to capitalize on the huge market, as well as to draw upon the highly qualified workforce.

Of course, the world’s largest and most diverse democracy faces numerous challenges – from infrastructure needs, to dismantling bureaucracy, and creating systems and processes that are more investor-friendly. In 2014, the Indian electorate picked a new government with an overwhelming majority, and charged it with helping the Indian economy grow faster, so that the benefits may reach a wider section of the population. The new government has been busy creating policies that are designed to foster innovation, entrepreneurship, and business leadership. Indeed, in the first year since the government assumed office, the inward flow of FDI has increased substantially, and several multinational corporations have announced setting up operations in India, in response to the Prime Minister’s “Make in India” campaign.

These are very exciting and volatile times for the Indian economy, and the expectations from the corporate world – both public and private – are immense. The focus of this series is on the continuous evolution and growth of the Indian economy and related management issues.

Titles include:

Naresh Khatri and Abhoy K. Ojha
CRONY CAPITALISM IN INDIA
Establishing Robust Counteractive Institutional Frameworks
CRONY CAPITALISM IN INDIA: ESTABLISHING ROBUST COUNTERACTIVE
INSTITUTIONAL FRAMEWORKS

Editorial content and selection © Naresh Khatri and Abhoy K. Ojha 2016
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First published 2016 by
PALGRAVE MACMILLAN

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Palgrave Macmillan in the UK is an imprint of Macmillan Publishers
Limited, registered in England, company number 785998, of Houndmills,
Basingstoke, Hampshire RG21 6XS.

Palgrave Macmillan in the US is a division of Nature America, Inc.,

Palgrave Macmillan is the global academic imprint of the above
companies and has companies and representatives throughout the world.

DOI 10.1057/9781137582874

Distribution in the UK, Europe and the rest of the world is
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Basingstoke, Hampshire RG21 6XS.

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A catalogue record for this book is available from the British Library.
A catalog record for this book is available from the Library of Congress.
To Avantika: Mere Bete, the sweetest girl in the world,
I will always love you – Dad

(Naresh)
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Foreword

Crony capitalism is all about the exercise of discretionary power by a person in authority to favor a select few. It invariably involves back-scratching for either political advantage or profit. In the process it creates distrust and undermines the legitimacy of governance. Cronyism or crony capitalism is certainly not new to India. However, what evokes surprise and concern is the virulence, the stimulus, and the comfort with which it has flourished over the last decade. This concern has fueled the authors of the chapters in this book to have a closer look at the theory and the practice of this phenomenon unfolding in India. The book is an excellent treatise on the subject providing 360-degree exposure to the manifestations of this scourge as it rapidly envelops the nation. It provides a theoretical basis to the phenomenon as it afflicts parts of the globe. An examination of the scandals which engulfed conglomerates in the USA and during the Asian financial crisis serve as an excellent reminder of the negative impacts of free market forces being derailed for personal gain and power.

Crony capitalism has taken deep roots in India. In some ways it can be perceived to be embedded in the basic premises of Indian economic philosophy. However, with the turn of the millennium it has gained a virulence which has transcended all regions, sectors, officials, the legislature, the executive, and the judiciary. Such cronyism ignores, nay negates, every requirement of objectivity let alone a modicum of transparency or accountability. The scourge is so deep-rooted that several transformational developments taking place in the country present opportunities for this section of players to try to divert attention making in government and public institutions for their personal agenda. These people have become the most insidious threats to a healthy economy or in fact a vibrant democracy which is premised on equality of opportunity to all and a level playing field. The play out of such a phenomenon needs to be urgently countered. It will be futile to expect the government or the legislature to take any initiative against such cronyism as the entire phenomenon is of their own making. The malaise can be tackled only by a public spirited campaign, which exposes all wrongdoing and seeks to create an environment which compels government, to not only be transparent in its decision making process, but holds it accountable for its decisions. Crony capitalism is not new to this age either.
The occurrence of coincidence for a select few has always evinced interest of them being the beneficiaries of political or government patronage. Cronyism has created oligarchs, who in turn have made entrepreneurial passion lethargic and have debilitated competition. It has discouraged the pursuit of excellence, derailed professionalism and introduced a mood of despondency.

The analysis of the cultural context and its correlation to the phenomenon of crony capitalism as observed in India is very illuminating. It needs to be emphasized that the last decade has seen the emergence of a behavior pattern, which has created disharmony and dissonance between the government and the people who voted for them. With the creeping in of discretion in enforcing rules and regulations, attempts at cornering national and natural resources, disregard for societal values or concerns, and the all-pervading ‘influence peddling’, those in powerful positions have created a vicious cycle, whereby only the ‘influential’ will continue to reap the benefits of government spending or exploitation of the nation’s finite natural resources. We have seen remarkably innovative constructs for cornering of such resources. What causes greater consternation are the highly imaginative justifications trotted out to justify suchcornering of state patronage. An even more dangerous trend is the realization among the awakened citizenry that people in such authoritative positions have begun to believe that since they have been chosen to ‘govern’ for a certain tenure, they are empowered to exercise such arbitrary patronage. Such patronage need not only be in contracts or economic issues, but is also observed in bestowing of state recognition such as Padma awards and even the Bharat Ratna. The grant of one such Bharat Ratna award in the sports category in the recent past, however deserving it may have been, did give ground to the belief that the decision was taken by a miniscule coterie and definitely with the motive of narrow political benefits.

Having been a witness to events unfolding in the not too distant past, one has to come to the inescapable belief, that cronyism or crony capitalism or the very display of favoritism is encouraged in covert and innovative ways such that the pattern becomes self-supporting to suit those seeking to disrupt and derail inclusiveness, equity or any form of fair decision making. The malaise has spread its tentacles in government functioning, sports bodies, educational institutions, regulatory bodies, judicial appointments, media or any other form of ‘influence capture’. Family oligarchies or family capture of political institutions have ensured that these remain aligned to the political construct of the times. It is mind-boggling that the capture by an 85-year-old politician
of a sports body, as its presiding deity, for close to 40 years can also be justified! It is ascribed to the ‘marvels’ of democracy and the election process wherein the elected person is ‘humbled by the margin of his victory in the body reposing faith in his stewardship’. If it were a leadership, a la Lew Kuan Yew, the results would have been available for all to see and hail, but the capture by a select few renders the entire process a farce, without an iota of remorse or guilt among the perpetrators of such designs. How does the citizen counter this? How is it that government officials and corporate leaders retire at the age of 60 or 65 and an 83-year-old can hold probably the most demanding political appointment in the country? The time has come when a discerning and demanding citizenry asks these questions and makes concerted efforts to negate such insidious designs.

The Indian Civil Services have come in for very sharp criticism in the last few years. No doubt the expectations of its continuing to live up to its famed legacy of being ‘a steel frame’, has been belied. The reasons for this can be many. The realization in the political executive of the powers of the administration, and its potential to defray patronage, has resulted in the politician arrogating that authority unto himself in the garb of being answerable to the Legislature and the public at large. The civil service has also witnessed creeping insurgency of factors such as caste, regional, language and political affiliations. A very major contributing factor to this malaise has been the inexplicable increase in the upper age for recruitment to these services. Whereas a trainee in the age group of 22 or 23 years can be molded, trained and inculcated with the qualities of an objective and efficient administrator, the capacity for similar training of a person at the age of 31 or 32 years of age at the time of induction in the service, would be severely diminished. Juxtapose this factor with the realization among the new entrants of the latter age group, that they would – like all others – retire at the age of 60 and hence, would have a career span of only 28–29 years as against a normal span of say about 35 years, in a governmental system dominated by the principle of seniority, would not permit his reaching the highest echelons, is bound to derail his career aspirations. This would naturally divert his interest to other areas where he sees greater ‘benefit’ for himself. Hence the lack of demonstrated objective behavior.

The study by Vishal Gupta of IIM, Ahmedabad, in Chapter 9, of how the IAS has been resistant to reform and its relationship to crony capitalism needs a wider discourse. These features need to be squarely placed before IAS officers for deep introspection. I strongly believe that this analysis is a befitting case study for new entrants to the civil service at
the Lal Bahadur Shastri National Academy of Administration to know what safeguards they need to build in. It would also serve as an excellent pointer to the phases III, IV, and V in service trainee officers to seriously reflect their behavior and actions. The recommendations are well thought out and deserve a nationwide discussion as any further deterioration in the quality of administration will have disastrous consequences. It needs to be recognized that economic growth cannot be made sustainable in the long run unless it is nurtured and incubated in an environment of good and ethical governance. I would sincerely recommend a nationwide debate on these issues. Well-informed and well-intentioned civil society members must contribute in the debate, to put pressure on the powers that be, to undertake the reforms that many committees have recommended for the civil services.

Every epidemic, malaise or affliction has an appropriate time within which it should be addressed. The cure has to be from sources within as well as external. There should be an element of self-belief and purity of purpose. Personal interests and aggrandizement cannot always eclipse every other public and community interest. Democracies and governments are meant to empower people and not emasculate them. The nation needs to learn from history – from the travails and demise of the East India Company, probably the first ever multinational, the Enron and Dabhol imbroglio, the Satyam saga and the lakhs of crores of rupees of bank money awaiting resolution in the corporate debt restructuring mechanism. These are outstanding examples of the deleterious effects crony capitalism can have on institutions meant to support growth. The conventional wisdom of a government taking the lead to root out the evils that have crept into society no longer holds any relevance. The scourge will require paradigm change. There have been signs of such citizen-centric initiatives. However, they need to be sustained and get broader support. Only an awakened citizenry and a public-spirited campaign can compel the government and political executive to reform themselves. Robust accountability institutions should be permitted the freedom of action. Their observations need to be acted upon. Competition promotes efficiency, decreases cost and leads to better delivery of services to the society. I am very sanguine that the predominantly young human capital that the nation possesses has awakened to the need of the hour and is looking for leaders, directions and support from the more aware among the public. I have great faith in the fact that we are on the cusp of a revival – a revival which will be fueled by public participation in governance.
I sincerely commend this book for a very wide readership. The issues contained in it touch every strata and institution of the country. We need to apply ourselves with dedication and sincerity of purpose to ensure that the youth of this country have trust in their government and that there is no dissonance between the people and the government they give unto themselves.

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Preface

The ideas in this book have evolved over many years. The thought of cronyism occurred to the first author after observing a pattern of promotions from assistant to associate professor in a large university setting. It seemed to him that more qualified individuals were not receiving promotion but being passed over in favor of those who were less qualified. Especially striking was the case of two individuals, one highly qualified and the other not. The former was outstanding in both research and teaching and deserving of promotion based on either research or teaching alone, while the latter lacked in both areas.

This and other similar examples raised a question in his mind. He had experienced first-hand organizational settings in which the level of incompetence and unethical behavior was more common as compared to others (perhaps most of us have encountered such situations at one time or another), with obvious implications for organizational performance. The concept of cronyism seemed to encompass these issues, and thus started our journey to study the phenomenon in more depth, culminating in this book. We were warned (the first author in particular) that cronyism is too sensitive an issue and that it may be controversial and risky to examine it, especially in the highly authoritarian setting that the first author was part of at the time. Nonetheless, the research on cronyism was pursued with our undergraduate students, resulting in the first presentation at the Academy of Management Conference in Toronto in 2000. Since then the first author has published several research articles with colleagues on the subject that have been received well by the research community.


Crony capitalism is emerging as one of the most important topics in various but related fields such as business management, economics, ethics, political science, and public administration. It is especially so in the Indian business and economics context. Despite its importance, it has not received sufficient attention from scholars studying Indian management. The scope of the project is ambitious in that it attempts to address the key underpinnings of this complex and multifarious issue in a single book.
We bring together experts from various backgrounds to provide a comprehensive treatment of the topic.

The book has been planned to meet the needs of students, teachers, and scholars in a variety of fields such as business management, economics, ethics, political science, and public administration. We are surprised that a comprehensive treatment of such an important topic has not hitherto been made available and believe that a book like this fills an important gap. Further, given the emergent nature of the Indian economy, it is hoped that it will provide important information for decision-makers in both government and business to help establish a robust institutional framework that is so desperately needed. In addition, the book will be of interest to an international audience for two reasons. First, both businesspersons and academics are watching India with great interest because of the size and dynamism of its economy. Second, there may be useful lessons for both developing and developed nations from our understanding of the Indian brand of crony capitalism.

The topic is of global interest and thus the book is likely to be of interest to students, scholars, policy makers, and practitioners in Europe, the USA, and other Asian countries, such as China and Japan that might be looking forward to deepening economic ties with India. Considering the increasing interest in the BRIC economies, readers in Brazil, Russia, and South Africa may find this book particularly relevant.

Other than newspapers, social media, and TV, there has been a dearth of writing and discussions on the topic of crony capitalism. We feel therefore that a book of this kind is sorely needed. Our goal throughout has been to provide a good quality text that addresses this important topic and we hope that we have succeeded.

Naresh Khatri and Abhoy K. Ojha
Series Preface

The Indian Academy of Management (INDAM)

The Indian Academy of Management (INDAM) was formed in 2007 to provide a platform for scholars doing research related to India where they could exchange ideas and share resources. The first conference was held in 2009, following which the Academy was officially granted affiliate status by the Academy of Management.

Over the last few years, INDAM has been a regular presence at AoM meetings, organizing Caucuses, Professional Development Workshops, and increasing its presence through members’ presentations at competitive paper sessions. In addition, INDAM has organized 4 highly successful conferences in India (2009; 2011; 2013; 2015). INDAM members have also been active in promoting research in India, through mentoring and conducting paper-development sessions at various leading management institutes.

At the 4th conference, INDAM launched the INDAM-PALGRAVE series which will present books on topical issues relating to developments in India. This book, co-edited by Naresh Khatri and Abhoy Ojha, is the first in this series.

On behalf of the INDAM board, we want to thank everyone who has helped make INDAM a successful platform for academics and practitioners interested in India-related management research.

We look forward to serving and educating our audience(s) for many years to come!

Pawan Budhwar
Founder and Past President

Arup Varma
Founder and Past President
Acknowledgments

We are grateful to Pawan Budhwar and Arup Varma for considering the book as the first title in the series ‘Palgrave Studies in Indian Management’ by the Indian Academy of Management. We hope the book will provide a flying start to the series. We would like to thank our colleagues who contributed the chapters. Without their timely and wholehearted support, this book would not have been feasible. They did not mind our nagging and stepped up when it really counted.


Naresh Khatri: This book is dedicated to the loving memory of my sweet and beautiful daughter, Avantika. She made me, my wife, Kusum, and my son, Aaditya, feel like the happiest and luckiest people on earth for 21 years. Avantika was a blooming flower and a breath of fresh air in a world that can become inhospitable and suffocating at times. She was so honest, genuine, idealistic, bright, always thinking of how to make the world a better place. I found her a far more mature and evolved person than her age would suggest. Perhaps, she was too good for the world that we live in. She had such a great promise. Indeed, she would have done phenomenal things. She taught me many things that really mattered in life. For example, she would suggest: ‘Dad, anger and pride can be quite harmful.’ The last movie that we shared as father and daughter was The LEGO Movie with the song ‘Everything is awesome’. This song has since become part of my everyday vocabulary, especially in my teaching, when I need to inspire my students. Given her interests in economics and political science, we had great discussions and arguments about the core ideas in this book. I would have hoped for her compliments on this book, which would have mattered to me more than anything in this whole world.
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Part I

Cronyism, Corruption, and Crony Capitalism
Introduction

Crony capitalism is an extension of the generic concept of cronyism as it applies to businesses and firms in a nation or society. A politicized or rigged economic system is dubbed crony capitalist to distinguish it from a system of free markets and limited government. It is the deliberate, systematic use of public policy to rig markets in ways that benefit politically connected actors. Crony capitalism breeds political entrepreneurs and stifles market entrepreneurs. By killing transparency and competition, it is harmful to free enterprise, opportunity, and growth. By substituting special interests for public interest, it is harmful to democratic expression and leads to income inequality and the middle-income trap, the often observed slowdown in growth that occurs once developing countries reach middle-income levels.

The study of corruption and cronyism cuts across diverse perspectives and embraces the academic disciplines of economics, political science, sociology, psychology, ethics, administration, and religion. The ever-expanding and cross-disciplinary literature on corruption and cronyism reveals the complexity and multifaceted nature of their causes (Laver, 2014).

One of the most common definitions of corruption is the use of public office for private gain. In virtually every society, historians and anthropologists have found that public affairs are distinguished by their exceptional privileges and trappings. Activities most prone to corruption include bidding on public contracts, the use of public funds, defense contracting, the handling of property, tax assessment and collection, zoning and land use, the legislative and elective processes, law enforcement, and the administration of public services (Caiden, 2001; Elliott, 2012; White, 2001).