



Resisting Corruption: Polyhydron Private Ltd

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Abstract. The case describes the resistance to corruption practised by Suresh Hundre, the founder and CEO of Polyhydron Private Limited (PPL), an SME in the manufacturing sector based in the small Indian city of Belgaum. It documents the decision adopted by Hundre in 1983 to resist corruption and the number of encounters with corrupt governmental officials that he subsequently faces and overcomes. In addition to following a transparent policy towards all stakeholders, Hundre also introduces a number of innovative management practices in his organization such as Just-In-Time (JIT), Kanban, self-managed work teams and the Nikkerin wealth sharing system. This enlightened management takes the company to achieve high growth in revenues and profits. The case can be used to illustrate the strategic and tactical issues in resisting corruption in environments where corruption is widespread.

Keywords: SME, resistance to corruption, ethics, managerial innovations, India.

1. Polyhydron Private Ltd

Walking through the Business Ashrama of his company after everybody else had left, Suresh B. Hundre, Chairman and Managing Director of Polyhydron Private Limited (PPL), felt pride on what had been achieved to date and especially on *how* it had been achieved. The company had grown to more than Indian Rupees (INR) 220 million in annual revenues in 2005-06 (US\$ 4.9 million based on the exchange rate at the end of the financial year March 1, 2006), since it was founded in 1981. In spite of being based in the small town of Belgaum¹, it was known all over India for its innovative management and manufacturing systems and exceptionally high ethical standards towards all its stakeholders. The company had successfully adapted and implemented its own versions of Just-In-Time (JIT) production, the Kanban Card System, Kaizen, Enterprise Resource Planning and other innovative management practices.

1. With a population of 564,000 in 2008, Belgaum was a relatively small city by Indian standards. For example, according to the 2001 Census, there were 35 Indian cities with populations exceeding 1 million, and Belgaum with 399,600 did not figure in the top 50.

Hundre also reflected on the overwhelmingly important role that ethical behavior and resistance to corruption had played in the company's growth and success. In 2006, the company had stable relationships with major clients and suppliers, a loyal and well-trained workforce, and specialized self-contained units for the manufacture of hydraulic valves, pumps and accessories. Hundre knew that as his company grew in size, maintaining the ethical values of the company would be a challenge for two reasons. First, a larger workforce would require more sophisticated mechanisms for recruiting and training new hires and for monitoring their behaviors. Second, growth would require more leaders at different levels of the organization. Hundre wondered what he could do to ensure that the management levels below him were as committed to ethical values as he was.

2. Corruption in India

The study titled “India Corruption study 2005 to Improve Governance” commissioned by Transparency International India and conducted by the Centre for Media Studies estimated the amount of bribes paid by the common man at INR 210 billion (US\$ 4.67 billion), with 65% of those surveyed stating that they had had first hand contact with corruption. Although there were indications that corruption in India had come down between 2002 and 2007², the level of corruption in the country was still very high, evidenced by the fact that India ranked 72nd out of 179 countries in Transparency International’s Corruption Perceptions Index³. The high level of corruption in business was attributed in part to India’s complex regulatory system, also referred to as the “license Raj,” which required businesses to comply with a myriad of highly complex (and sometimes contradictory) rules and regulations on taxation, reporting, employment, health and safety and a whole host of other issues. It was estimated in 2002 that a manufacturing unit in Mumbai in Western India could be inspected by nearly 50 different governmental departments. It was quite common for inspectors to arrive at a company’s premises without prior appointment, ask to see the owners, enjoy cups of tea or coffee, and leave with a small sum of money in return for not causing trouble. The amount of money that a business had to pay on each such visit was quite small, but the total amount that had to be paid to the different governmental department officials over a year was not insignificant. More than the financial cost, business owners complained about the time they had to spend entertaining these officials and the sense of anger and outrage they felt at having to pay money to individuals who had done nothing to earn it. Of course, there were also many business owners who had something to hide (i.e., that had

2. “Believe it or not! India is becoming less corrupt”. *CNN-IBN*. September 26, 2007.

3. Denmark, Finland and New Zealand were jointly ranked first and were considered least corrupt in the CPI 2007, and Somalia was ranked 179th and was considered most corrupt.

violated some rule or regulation) and were quite happy to buy the silence of governmental officials.

3. Suresh B. Hundre

Suresh B. Hundre was the son of a shop-keeper. His father had only studied upto third grade but wanted his three boys to get a good education. Hundre used to help his parents with their small grocery shop when he was still in school. In spite of the family's meager income, Hundre's father managed to pay for his first year of college education, after which Hundre got scholarships for the remainder of his studies. He graduated in engineering from the Regional Engineering College at Suratkal, and later worked as an assembly and testing assistant in a hydraulics manufacturing company for 15 months until the end of March in 1974. At this company, Hundre befriended two of his colleagues D. S. Chitnis, and V. K. Samant. All three suffered in their job because the company owner was not a straightforward person and frequently delayed their salary payments. The three started discussing the possibility of branching out on their own and start a company in Belgaum. All three finally got together and started Hyloc Hydrotechnic in April 1974. The initial investment was INR 5,000 (US\$ 620 at the prevailing exchange rates) from each plus an INR 25,000 (US\$ 3,100) loan from the bank and with that they started a hydraulic tube fitting and related equipment manufacturing unit in a building previously used for producing soap.

4. Hydrotechnic

Though it was a very hard struggle to obtain the first orders, they eventually managed to bag a contract and orders from Vickers Sperry after they had bought a machine for INR 19,000 (US\$ 2,350). Initially, nobody believed that these hydraulic products (fittings) could be made in India (companies used to import them from Germany), but after Hydrotechnic proved its capabilities and set its first footprints in the hydraulic market, it started producing hydraulic tube couplings for metric tubes, flanged fittings, shutoffs, needle valves, throttle check valves, etc.

The three founders benefited from the fact that a large demand supply gap existed in the Indian market, which they filled with their low-priced products, helped by the fact that other manufacturers followed high-price strategies. In May 1975 they shifted to a new location and at the end of the financial year (March 31, 1976) the turnover had reached INR 150,000 (US\$ 16,750).

Their strategy was successful, though business remained tough in the first few years, and by 1981 they had reached INR 1.4 million (US\$ 162,000) in annual revenues.

5. Polyhydron

In 1981 the three partners started another company called Polyhydron. Little could they imagine the turbulent oceans they would need to navigate before turning Polyhydron into a role model for companies all over India.

The initial idea to start another company came from an external consultant, who suggested that Hydrotechnic sub-contract parts of its work to a new company to reduce its tax liability. Polyhydron was founded in the names of the partners' wives and was set up as a partnership. This second company had a start-up capital of INR 4,200 (approximately US\$525), i.e., INR 1,400 (US\$ 175) per partner.

Though no bank was willing to give them a loan, they were able to buy a drilling machine – for INR 18,000 (US\$ 2,250) and start operations, thanks to an INR 18,000 loan from a rich friend, whom they had earlier helped to set up his business. They were able to fully repay this loan within one year through the sale of scrap from Hydrotechnic. Later, a bank gave them a loan, from which a milling machine was bought. The first customer was Ingersoll Rand, who ordered manifold blocks from Polyhydron.

Two years later – in 1983 – events took place that changed forever the way Polyhydron did business. One of their consultants advised them to manipulate the balance sheet to avoid paying taxes on their considerable profits. The way to do so was to buy a large machine before the end of the financial year and claim tax deductions on it. Although they had plenty of cash, the machine was not available and could not be supplied before the end of the 1983 financial year. Nevertheless, a deal was closed with the supplier for Polyhydron to receive the invoice for the machine as well as the lorry receipt, which reflected that the machine had been delivered before the end of the 1983 financial year. Accordingly, they accounted for the machine in the 1983 financial year, claiming depreciation on it and thus reducing their tax liability. Before the machine arrived, the income tax department came to know about this deal and started an enquiry.

While the machine supplier managed to get out of trouble, Polyhydron got caught and the income tax officers filed a case, which due to the ownership structure of the company got directed to the partners' wives. The wives, through no fault of their own, had to go to court, explain what had happened in the witness stand and go through the whole legal procedures.

Hundre was deeply affected to see his wife in the witness stand. He believed that she had been put in this humiliating position through no fault of hers. He referred to this situation in 1984 as the turning point in his approach to business, saying: "Then I realized it is not worth it – for what are we doing this? It is not worth it at all. I told my partners that we will stop it and make sure to never let this happen again."

While Hundre had decided that his company would never again get involved in unethical practices, the corrupt business environment he operated in did not change and naturally it was just a question of time before conflicts arose.

Immediately after the tax evasion case, Polyhydron started paying its taxes meticulously and changed old business practices with clients and other stakeholders. While in earlier times they used to sell materials without invoices, they stopped this practice and started accounting for every transaction. With this, dealing in black money (i.e., income that had not been declared to the tax authorities and on which no taxes had been paid) was brought to a stop.

In 1986-1987 the partners decided to split their responsibilities between the three group companies, with each partner being solely responsible for the management of one company.⁴ Hundre took responsibility for Polyhydron. In 1989 Hundre changed Polyhydron from a partnership company into a private limited company, now called Polyhydron Private Limited (PPL).

Shortly thereafter, a factory inspector came for a first visit. Out of fear that he might submit a negative evaluation of the company, which would lead to a penalty being imposed on PPL, Hundre eventually paid him Rs. 100 and the inspector went away happy. Though it was very easy to deal with officials in such a way, it made Hundre feel very uncomfortable, left a very bad impression in his mind and pinched his conscience. After this incident, Hundre decided that no more bribes were going to be paid – but he also realized that this was only possible if things were done in accordance with the rules. The basis for this was to know and understand the legislation. Hundre described his attitude as follows: “If I do not know some law, how can I be right? I may be wrong also, but that doesn't matter – whatever I know I should be able to manage as per the requirement and I came to the conclusion that if you are sixty per cent right, nobody can touch you, because the government officers are not knowledgeable of even fifty percent of the law. This was the thumb rule I made to myself and I told my managers that whatever happens they must maintain this – there is no alternative and we are not going to bribe anybody from now on.” This decision was a first step on a long and difficult road to become a company known for its resistance to corruption.

This fundamental decision met its first challenge on the next occasion when a government representative came and said he was supposed to audit PPL's accounts, but did not have the time to do it, and was willing to leave if he was paid some money – for himself as well as for his two assistants. It went so far that he told Kulkarni – a manager of PPL – how to bundle and pack the money. Kulkarni, following the new policy of the company, told the officer that the company had adopted a policy of not paying bribes. The government officer asked for Hundre and proposed to him that he would write a nil report (meaning that no money was due from Polyhydron to the tax authorities) in exchange for three hundred rupees. Hundre asked him instead for a real report, since he was not interested in a nil report.

4. After Polyhydron, a third company was set up, which would become Oilgear Towler Polyhydron.

The government official responded that he had to work to write a report and Hundre responded: “It is your decision whether to work or not to work but I am interested in the real report. Whether I am doing things right or wrong, you have to tell me because it is your job. I want to know if I am making mistakes, because I would rather correct them today than do it after some years to prevent my liability from increasing.”

The officer asked for the books and started searching for mistakes – after he found the first couple he told Hundre angrily that he shouldn't have asked for a real report and that he was going to be penalized now. Hundre just responded: “No problem, please put it on a piece of paper and tell me in writing,” because one of the principles he had adopted was that he would never accept any decision or instruction from any government officer as long as it was not written down and communicated officially to him. Hundre explained this requirement: “What I have learnt over a period of time is that most government officers would like to talk and threaten you orally, but they never put their threats on a piece of paper unless they see that they are not going to get any money out of it. I was not ready to pay any money, so the alternative was for him to put it on a piece of paper.”

About the mistakes, Hundre told the officer: “Yes, I won't disagree with you. I have made two mistakes which you have pointed out. I promise you right now, I will correct the system today and for the past I am ready to pay the penalty, but you have to give it to me in writing – that is the only requirement. Please calculate and tell me the liability and I am ready to pay.”

After the government official realized that he was not going to get any money from Hundre, he just closed the book and went away.

Hundre's growing courage was also shown in another incident, when a labour inspector came to visit the company. After he had inspected the premises, he finally said that a certain “Form 31” was not displayed on the notice board. When Kulkarni then put it on the notice board the inspector said that it was too late and that they would have to pay for the offence. Hundre just answered: “It doesn't matter. I am ready to pay the penalty if there is a punishment. I am even ready to go to jail – no problem, don't worry about it. If you want me to come along with you please give me one hour, I will go and get a bag – we will go together and you can put me in jail, no problem.”

Following this, Hundre asked the labour inspector how he had come to his company, and the latter answered that he had come on his two-wheeler. Hundre also asked him if he had brought a helmet and his driver's license. The inspector showed his helmet, but said that he did not bring his license, in case he lost it. Hundre responded that it was against the law to drive on the road without carrying the original license and added:

Now you have committed an offence, and you are not going out of my office. I am going to call the traffic police the moment you start your vehicle and go on the road. I will ask them to catch you because you are not carrying your license. How do you like that?!

The labour inspector abruptly took the notice away, tore it into pieces and went away.

6. Improving the Management Systems of PPL

In addition to his efforts to set high ethical standards, Hundre was restless in constantly improving the management systems within PPL, making the company a better organization to work for and delivering high quality at low prices to its customers.

In 1987-1988, Japanese management techniques started to catch his attention. When practicing clean administration, Hundre understood the need to improve practices in other areas as well and started reading on innovative management and manufacturing approaches, such as just-in-time manufacturing. A first step was to make processes simple and transparent. He then started experimenting with the JIT concept and finally implemented his version of it in PPL without the help of any consultant. While changing the whole manufacturing system, Hundre implemented Japanese management techniques like Kaizen (continuous improvement), the quality circle and independent and self-managed working groups.

Hundre's approach in taking decisions and changing the manufacturing system were always straight and direct. If something came to his mind, he would do it immediately. The day he realized the advantages of JIT, he started the changes the very next morning, in spite of the fact that the company layout was not conducive for JIT at that point in time. To adapt the layout, he dismantled everything and threw out all cupboards and whatever else was there for storage purposes. He distributed everything to the place of its use and did away with the old habit of locking inputs – from that moment on, the shop floor stayed open. Hundre pointed out that it was important to express trust towards your employees in deeds, not just in words.

Concerning JIT, Hundre stated: “We are not 100% successful, nor do we practice JIT 100%.” Given the capabilities and restrictions of their suppliers, JIT referred solely to PPL, since the subcontractors were given the task of manufacturing certain components and delivering them according to a certain schedule or timetable for that supply product. Depending on the capacities of the supplier, this might mean that they were the ones who needed to have the storage. A supplier described it as following: “It will be just-in-time as long as Polyhydron is concerned but not just in time for the manufacturer. Polyhydron may not be holding the inventory, but the manufacture must be holding the inventory.”

To guarantee and secure a smooth production process, PPL applied the “Two-Bin-System” with its suppliers. This meant that there were two bins – one at PPL and the other at the supplier. When the quantity in the PPL-bin reached half a pre-determined quantity, an order was generated and sent to the supplier, who had to

replenish it. Sudhir Sakri, manager at PPL, described the procedure: “The supplier holds half the stock, I hold full stock, when I finish my stock to half I send a purchase order. This is all automatic. It goes to him. Then he is supposed to give me half immediately, as soon as he receives the order. That was the system. Now for that he gets immediate money. If he gives me a bill today, I will give him the money tomorrow. Similarly, if I give a purchase order today, he has to give me the material tomorrow. That was the understanding.”

7. ABC-System

The ABC-System dealt with the categorization of which products were kept for how long in advance before they went into the production flow. Connected with the Two-Bin-System these three categories determined the storage time within PPL: “A” graded products had seven days stock and represented 70% of the value; “B” graded products had fifteen days stock which was 25% of the value; and “C” graded items had thirty days or sometimes two or three months inventory, and accounted for the final 5%. The planned order for the next year (re-order level) was based on the consumption of last year plus a growth factor. With this system they could plan the weekly, bi-weekly, and monthly stocks. Besides, during the year the level was automatically updated based on feedback – in this sense the system was dynamic.

Additionally, PPL’s order system improved the quality and speed of the whole process. All the orders it had booked on a day were again broken up into bills of materials and important Production Planning Control items (PPC-items, high value-low quantity) were identified. This information was posted to suppliers every week on Mondays – it was based on incoming orders from customers. As Sudhir Sakri stated:

The information flow is very fast, like what I need, how much I need, when I need it, from whom I need it, what the cost is, etc. Everything is defined. What to do, when to do it, everything is there.

The orders clearly indicated the position of stocks in the factory, their rate of consumption, date of delivery etc. No purchase managers needed to meet suppliers and above all, the price for a component was fixed for one year, and prices were reviewed only when raw material prices fluctuated sharply. Established vendors were not penalized if at any time a new vendor proposed to supply at a lower rate. Hundre believed that such suppliers might not hold on to their prices for long and use them just initially to gain business.

In 2006, 80% of the components were sub-contracted, out of which around 60% were direct-use, which meant that they went directly into the assembly as finished goods and did not go through any inspection. The remaining 20% were semi-finished products, which went through some other operations like grinding,

milling or drilling before being used. Altogether, PPL had around 6,000 components, which were categorized according to their value and quantity. For example, items which had a high value and low quantity were ordered JIT and went directly into the production flow, so that no money was blocked in inventories.

Together with the implementation of its own version of JIT, PPL reduced the number of suppliers and created an atmosphere of trust and the basis for a long-term relationship with a few of them. As Hundre pointed out – “all these changes require big hearts, big minds, the creation of big links, and big sacrifices on either side.”

8. Kanban Card System

Hundre also introduced the Kanban Card System so that each PPC-item to be processed had a “Kanban” card which moved along with the item. This card was like a process flowchart and clearly indicated all operations and actions to be taken by the operator.

9. Kaizen

The management never stopped implementing new ideas at every level of the company and was therefore striving to educate each member of the workforce to learn the new philosophy and adapt rapidly to the new systems. Furthermore, every employee was encouraged to read books – PPL provided books on a variety of topics in their own well-stocked library. In order to promote reading habits, the company held two hour classes in English, after working hours for which the employees were paid overtime. When Hundre implemented the Japanese management system Kaizen, the senior managers had to undergo different training programmes and attend the corresponding courses.

10. Independent Work Stations

Along the way to empower the workers of PPL and give them more responsibilities, Hundre implemented the system of independent work stations for his manufacturing units. Each cell of the factory was a unit by itself with work stations and machining centres. The Manager of the work station had a computer with him for processing data, updating product range, and incorporating any changes. All the supply components and raw materials were brought from the sub-contractors in the specified batch sizes directly by the work stations. The workers in each cell formed a group and were responsible for maintaining the

equipment in the cell, attending to machine breakdowns, cleanliness including sweeping floors, cleaning window panes, etc. The shop floor was kept clean in spite of various operations like milling, drilling, grinding, and turning.

To realize the biggest potential from such measures such as empowerment, high transparency, JIT, Kanban Card System etc., an employee normally handled two work stations and was the boss of his area. He checked stocks, advised office staff on purchase orders and worked with the sales department all through the computer network. This meant that every worker had access to all the information (purchase prices, selling prices, etc) through the computer terminal. Further, work inspectors did not exist and paperwork was reduced to a minimum.

11. Growth

The improvement of the system and the good quality of PPL's products increased demand. Furthermore, Hundre lead his company into new markets – with his focus not on a complete product range, but only on fast moving items. These were produced in big quantities by customers and allowed PPL to get huge shares of the markets that they entered.

12. Hundre's Most Difficult Corruption Case

One incident that Hundre described as his most difficult occurred when Oil Gear Towler Polyhydron (the third company headed by Samant) had already constructed a building and applied for power supply. By then, Hundre was already known in the region for not paying any bribes. There was then a government officer (Assistant Executive Engineer) of the local electricity supply company, who used to harass everybody and was very corrupt. He knew that Hundre did not pay bribes and so he decided to challenge him and not to supply power to the new unit unless he paid bribes. This officer stated his position explicitly to Hundre's contractor. Hundre accepted the challenge and responded that he would obtain power supply without paying any bribe.

Hundre immediately started to mobilize the business community in Belgaum and organized a very big agitation. He even went twice to the Chief Minister, which seemed to solve the problem at first, because instructions were sent to the Chairman of the electricity company to suspend the corrupt officer. Since the Chairman was also corrupt, he told Hundre that the Assistant Executive Engineer was a good man and that Hundre was misinformed. Beside, the official letter of the Chief Minister never reached the Chairman since the corrupt officer managed to intercept it and even showed it to Hundre. Hundre went again to the Chief Minister with the whole story and this time he got the letter and delivered it

personally to the Chairman of electric company. This left the Chairman with no option but to transfer the corrupt officer, though he did not suspend him.

It was Polyhydron's bad luck that after seven years of absence from Belgaum, the same officer came back as an Executive Engineer. Hundre was outraged that this officer could get promoted and even transferred back to a city where so many businessmen and companies had suffered so much from him.

This time Hundre approached the Member of Parliament from Belgaum, and told him that if he did not get the new Executive Engineer out of Belgaum he would start the agitation again. When he was talking to the MP, Hundre did not realize that the very officer he was talking about was standing behind him in the same office. The person who had just become MP had no guts to suspend the corrupt officer and so Hundre left his office.

The Executive Engineer followed Hundre and asked him to forget about the past and promised not to trouble anybody in the future. Hundre refused: "Whatever you may say now, I cannot forget the harassment and the atrocities that you have indulged in, not only against me, but against all small businesses – I cannot forgive you and it is an insult to me and to the industrial community that you have come here as an officer. I am not able to tolerate this but be careful and don't try to harass anybody. The first such instance that I come to know of, I am going to continue my effort to oust you – no doubt about it. I want you out at any cost."

Some years later – in 2002 – Hundre needed to convert the power supply for his company from low tension to high tension and sent an application to the electricity company, and the application went to the same Executive Engineer. The Engineer claimed that the first application was lost by him and Hundre filled out a second one. Hundre's contractor went to the office and told Hundre afterwards that the officer was up to his old tricks again, looking for ways to delay the application. Hundre was under time pressure and wanted power within one week, because without it he could not start production. He was not willing to go and meet the officer, but wanted the issue to be resolved quickly, so he wrote an e-mail with three questions to the Chief Minister.

- 1) Is it so difficult to get a 50 HP (high tension) electricity supply to run an industry which contributes so much money to the government?
- 2) If somebody is responsible for delaying this power supply, is he held responsible for the loss to the government and also to industry?
- 3) If this is the case, can you do something about it?

Hundre sent the questions at 12:30 pm and at 5pm the Chief Minister answered that he understood Hundre's position, he would look into the matter and would ensure that the matter was resolved. On the seventh day, Hundre got his high-tension power supply for PPL without meeting the government officer.

Hundre explained that he often felt that his blood was boiling when he came across such petty obstacles and that he was fearless in his battles, determined to adhere to the values that he had committed himself to. Some of his stakeholders admitted that they were afraid of his temper. He was willing to accept all the consequences of defending his values and was even willing to go to jail for them. But he also realized that it was a very difficult way of doing things and that he could not force everybody to adopt his approach. “I restrict this way of fighting to myself. It is very difficult to change the world – impossible – but at least I try to set an example and show people that you can be honest, ethical and do business profitably.”

Suppliers reported that PPL was encouraging them to follow the same policy of not paying bribes, though most of them admitted that they had not reached this level of ethical behavior (yet).

13. Excellence and Quality

At the same time as he tried to instill an ethical culture in Polyhydron, Hundre tried to reach the same high standards in manufacturing and quality: “I want to be excellent in whatever I do because excellence is a way of avoiding competition. I do not want people competing with me. Excellence can be measured in terms of price, delivery, quality, and service.” While he saw that PPL was strong in pricing, delivery, and service, he believed that there was scope for improvements in quality.

The company was proud to have stable relationships with its suppliers and it was widely acknowledged that trust played a key role in these relationships – for example, components did not need to go through an inspection process after they were delivered. Thus far, PPL had not obtained any certification, such as ISO. This was because the whole organization was built upon trust and Hundre had not seen the need until now. He felt that ISO was based on a philosophy which contradicted PPL’s trust based approach, in that it required checks and counter-checks for every activity. Nevertheless, PPL did follow some quality systems according to the requirements of their large clients, like Larsen & Toubro, John Deere and TELCON.

Not everyone on PPL’s management team was in complete agreement with Hundre on the need for quality. For example, one manager saw the need to change the current control system if they were to improve quality to the level of the industry leader Rexroth, a German company. “To reach this high standard we have to control all our manufacturing facilities and all our incoming material. Right now, we don’t have any real control over what the vendors supply; we only have faith control – total faith control – that whatever they are supplying is correct. For all we know, they might be mixing defective product with good product. This we don’t know.” This manager was in favor of imposing strict

controls, and even surprise visits to suppliers' premises. There was a debate on whether such a change in the quality control system would have negative effect on the relationship with their suppliers.

14. Wealth Sharing

The mission statement of the company emphasized good and fair treatment of all its stakeholders. Therefore, Hundre started very early on to look for some material on the issue of profit sharing. He came to know about the Nikkerin system and started to introduce schemes of sharing the wealth that the company generated. He adapted the Nikkerin system and came up with the Value Addition Scheme, which was introduced in 1991-92 and employees profited from it until 1996-1997, when the value addition bonus was 74% of the basic salary plus 20% statutory bonus, which summed up to a bonus of 94% of base salary for each employee.

During his search for a formula on how best to share the wealth created, Hundre was inspired when he heard about the ratio of wealth distribution which is practiced at the national level in Taiwan. The ratio of the income of the top twenty percent of people divided by the income of the bottom twenty percent people was eight. Hundre maintained within PPL a ratio of four; he believed that the smaller the ratio the more equal the distribution of wealth. Other ratios he maintained was that the income of the top 50% divided by the bottom 50% was two, and the ratio of maximum salary before tax to minimum salary was about thirteen, -after tax it was about nine. Another ratio which PPL followed was the distribution of net income between company, employees, shareholders and society. Hundre explained his formula: "We first calculate the wealth created and then we share 30% with employees, 5% with shareholders, 1% with society and balance 64% remains in the business for growth. Of course, this is all after the payment of corporate tax as per existing rules."

Complementary to the wealth sharing system, PPL introduced a scheme for offering employees two-wheelers and a program called "Robin Hood Scheme", which provided a subsidy on household articles. Additionally, the employees of the company, the suppliers and their workers could become members of the Co-operative Credit Society from which loans were given.

15. Relationship with Suppliers

The company placed great importance on having a close and intensive relationship with its suppliers – and followed the policy "one supplier for one product". Furthermore, vendors stated that PPL took care of any technical, non-technical, or personal problem. For example if there were any training programs

for any of the vendors, these training programs were offered at PPL. Some vendors described their own relationship to PPL as so close that they considered themselves a part of the Polyhydron Group, although there was no legal connection between them. There was also no need to follow-up payments for orders from PPL. “Not even a single phone call is needed for this – automatically the cheque is posted.”

16. Credit Policies

PPL made a commitment that it would fund growth from reinvested profits, and this meant that it followed a no-debt policy. For more than ten years, PPL had been a zero interest company and even financed the INR 6 million (US\$1.33 million) investment in the building without any loans. Furthermore, the company paid suppliers immediately upon delivery. At the same time, PPL did not give any trade credit to any customer. With these policies, Hundre had turned PPL into a cash-rich company. Hundre explained that he was “not in banking, but in the manufacturing business”.

17. Pricing

The customers were also treated with simple and transparent rules, such as “everybody has to pay the same price for a product” (all prices were publicly listed on the webpage of PPL). Some dealers reported that this was a bad policy. Their complaint was that Polyhydron did not support its own dealers because it did not guarantee them a good margin. It was difficult for dealers to sell PPL products, since a customer could go directly to Polyhydron and buy the product – at an even lower price, due to savings in some taxes.

Other dealers stated that Polyhydron had to become much stronger in marketing.

18. Facility Structure of PPL

The organization of PPL’s facilities and their design were different from those in conventional organizations – they symbolized PPL’s philosophy and contributed to an efficient production flow. Hundre referred to his “Business Ashrama” as “a place for grooming karma yogis⁵ based on an experiment of integrating spirituality with business to produce excellent results.”

Additionally, the company had built a meditation centre where the employees could meditate before they started working. The meditation centre had a

collection of books on spirituality, religion, and the art of good living. The company had built a facility for the employees to perform yogasana and a good gymnasium, for which it had bought equipment for more than INR 250,000 (US\$5,555).

PPL had won many awards for its method of functioning. The reputation of the company as an excellent work place and ethical organisation was very strong. PPL had won the President's Awards (National Confederation of Small Scale Industries – Small Industries Management Association) for excellence in management instituted by the National Confederation of Small Scale Industry in 1992.

19. Work Culture, Communication, Open-Door-Policy

PPL had an open-door policy and any employee could meet the MD to discuss any issue without special permission. Everybody was free to enter any other section. Though communication in the company was possible both ways, in reality there seemed to be little bottom-up communication. Employees spoke amongst themselves but the management aspects were not communicated much. One manager was of the opinion that there was a lack of team work and mutual help in the organization, which he could not understand. These developments had occurred in his opinion over the last years and they had to be changed again if the company wanted to continue to grow.

While transparency was reported to be one of the major characteristics within PPL, and even recognized by stakeholders such as suppliers, one manager felt that though "everybody knew everything", nobody really understood it. He believed that the P&L statement and balance sheet (which every worker had access to) were causing some perplexity. This was so particularly in recent years in which bonus payments had been negligible.

Yes, we have got a wealth-sharing system, but about 80 percent of the people don't understand what a wealth sharing system is. They have not been taught properly.

According to him, the management had to look for solutions in order to improve the mutual communication and ensure that workers understood the systems.

5. "The word Karma is derived from the Sanskrit *Kri*, meaning "to do", in its most basic sense *karma* simply means action, and *yoga* translates to union. Thus *Karma yoga* literally translates to the path of *union through action*. It is described as a way of acting, thinking and willing by which one acts in accordance with one's duty (dharma) without consideration of personal selfish desires, likes or dislikes. Acting without being attached to the fruits of one's deeds" (Wikipedia).

The great emphasis on trust in employees was shown by such features as wages being based on the attendance card, which was maintained solely by each worker himself – there was no time punching machine and presence, absence as well as late arrivals were monitored personally by each individual worker. When outsiders expressed skepticism about the appropriateness of such approaches in the Indian context, Hundre responded:

There were a couple of incidents when the employees were found to have taken advantage of this system. They were asked to give an undertaking to the management stating that such a thing would not happen again. This was displayed on the notice board and since then such a practice has never been repeated. Even if the management is not aware of it, the employees always have to face peer group pressure.

PPL, according to Hundre, worked on the principle of “Today’s work today and tomorrow’s work tomorrow”. There is no over-time and there was only one shift.

20. Tax

PPL ensured total transparency regarding tax matters and all of the company’s accounts. Hundre incorporated various systems with regard to honesty and he did not hesitate to pay tax – he even felt pride on being a contributor to the national exchequer. Tax accountants in contact with PPL confirmed that they did not know any other company who took care of this issue with such accuracy and honesty. This practice was founded on the company’s code of ethics: “Each of our employees is responsible for both the integrity and consequences of his own action. The highest standards of honesty, integrity and fairness must be followed by each and every employee”. The company strove to meet all the statutory requirements as an SSI unit (Small Scale Industry) and paid all government dues regularly. The workers fully realized that the management policy was to treat all these dues (including Renewal fees, Professional tax, Employees State Insurance, Entry tax, Sales tax, Central Excise Duty and Income tax) as its contribution to the Government and to make no effort to dodge liabilities or find loopholes. The employees knew that even after paying these taxes, the company could still meet its commitments to its employees.

21. Ethical Behavior and the Future

When small companies were informed about the practices at PPL, and were asked if they would adopt them, many responded that they could not because they were too small and did not have the same influence or resources – and therefore bribing

seemed to be the easier or only way out. Hundre did not accept this as a valid argument:

The fundamental issue is not understood, because it is not necessary and indeed practically impossible to follow each and every rule in this country because we really don't know how many rules are applicable to us. The most important thing is to behave correctly to the extent possible. Basically, people are morally and mentally weak. People do not want to fight. They think that they cannot fight and they have not realized that there is a power in everybody. When I started fighting I was not a big man. People say to me – “you can talk all sorts of ethical management and spirituality and this and that because your stomach is full, you have become rich, you have become strong, etc.” It is not whether your stomach is full or not, it is your mind which says whether your stomach is full or not. It is the mental status of the human being that matters as far as money is concerned. It is the mental attitude of the person and not the physical appearance or financial status. It is your achievement and attitude which tells you whether you should do this or not.

Hundre believed his policy of not paying bribes had not resulted in any loss of business, though he also stated that this was once the case with Oil Gear Towler. They lost business from the government, because they did not bribe. He believed that values were the skeleton of a company and did not change no matter what the circumstances.

With all these thoughts in his mind, Hundre focused again on the questions of 1) maintaining the ethical values as the company grew in size and 2) developing leaders in the organization who were as committed to ethical values as he was.

Exhibit 1

Profit Calculation Of PPL

	2001-02 (Audited)		2003-2004 (Audited)		2004-2005 [Audited]		2005-2006 (Audited)		2006-2007 (Estimated)	
Sales	78,242,599		136,364,336		167,900,903		219,589,944		280,000,000	
Other Income	880,895		1,884,091		3,416,030		4,010,783		3,000,000	
Total Income	79,123,494		138,248,427		171,316,933		223,600,727		283,000,000	
Tax Payable (Income Tax)	4,941,635	35.70%	10,966,040	35.88%	12,443,497	36.59%	23,416,985	33.66%	30,672,675	33.66%
Tax Paid	5,344,000		12,224,777		15,000,000		21,000,000		24,000,000	
Balance Payable	-402,365		-1,258,737		-2,556,503		2,416,985		6,672,675	
Tax Payable	4,941,635		10,966,040		12,443,497		23,416,985		30,672,675	
% of Tax to Income	6.25%		7.93%		7.26%		10.47%		10.84%	

