Changing corporate governance practices

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More needs to be done to ensure adequate corporate governance in the average Indian company.

The start of this century was marked by an emphasis on corporate governance, which leapt to global business limelight from relative obscurity after a string of collapses of several high-profile companies.

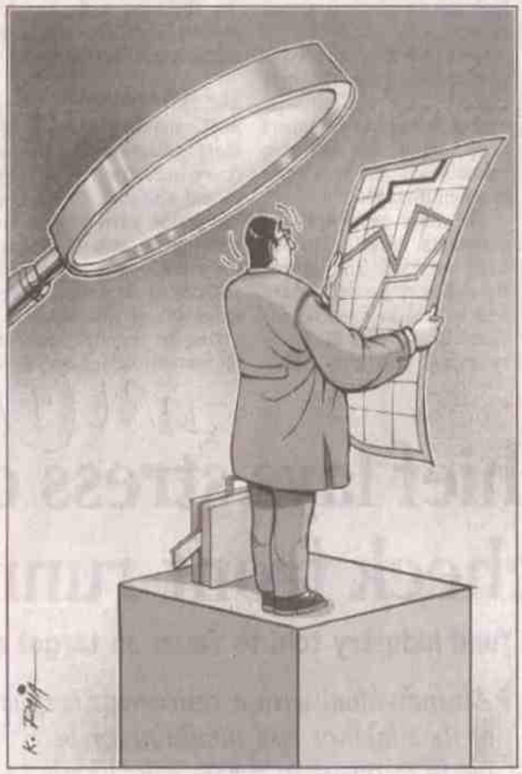
The business world was shocked with both the scale and age of unethical and illegal operations. Ever since, the need for adoption of good corporate governance principles has only got reinforced from time to time, but inevitably and inextricably, efforts to this end have gathered further momentum each time a new corporate scandal has come to light. And India is no exception to this phenomenon.

Events of last year involving an Indian technology major, have prompted several questions and various forms of introspections on corporate governance practices, as well as brought focus on aspects relating to disciples exercised by the dominant shareholder, accountability of the management, role of the auditors (external and internal), functioning of the board and audit committee and also the value of ethical conduct in business.

THE CURRENT FOCUS

The spotlight is now firmly on key aspects of the governance framework, with particular emphasis on the audit and finance functions which have a legal, moral and ethical responsibility to identify and disclose aspects of a promoter-driven agenda that have the potential to impact the interests of other stakeholders adversely.

The challenge for policymakers in India is to reach an appropriate balance between legislative and regulatory reform, taking into consideration international best practices that augur well with the growth climate in India, while also fostering greater enterprise and enhancing competitiveness in a manner that can stimulate further investments. While some of the current laws and regulations in India are possibly amongst the best in the world, there are several others which are somewhat archaic. What India also needs is a more proactive, yet simplified, monitoring and enforcement framework to ensure effective levels of compliance with regulations. Undoubtedly, unless there is a genuine intention within an organisation to incorporate "compliance in principle as opposed to compliance in legal form" into corporate strategy and operations, regulations will only have a limited effect.



BUSINESS ETHICS

In business ethics, what was good is becoming bad and what was considered bad is now good. Standards for corporate governance that have worked for decades are looking old fashioned or immoral, while other practices that raised questions are now becoming totally acceptable. Debates, discussions and reviews on corporate governance have predominantly focused on large, listed and high profile companies with dispersed shareholdings and there is an impending need to expand the net, in recognition of the impact of issues relating to financial transparency, the role of access to outside capital and conflict resolution, to non-listed and family-controlled companies. These today are considered a crucial component of the growth engine for the Indian economy.

While analysing corporate governance in public sector units (PSUs), the considerations that often come up relate to the perceptions on the over-regulation of PSUs in India, which, on one hand, are accountable to various authorities under several regulations, including Parliament, the Comptroller and Auditor General of India, the Central Vigilance Commission and the Right to Information Act, and, on the other, are susceptible to bureaucratic hurdles.

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