

## Changing corporate governance practices – An article by Monish Chatrath, Executive Director, Mazars.



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 disciplines 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 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.

Although corporate governance is the legal framework, the ethical framework and the moral framework within which business decisions are taken; the focus in India continues to be largely around the legal framework. Since there is clearly no dearth of legislation relating to corporate governance, it is the latter two aspects which need more focus in India. The challenge for policymakers in India is to reach an appropriate balance of 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 greater focus and more proactive, yet a simplified monitoring and enforcement framework to ensure effective levels of compliance with regulations. Undoubtedly unless there is a genuine intention within an organization to incorporate "*compliance in principle as opposed to compliance in legal form*" into corporate strategy and operations, regulations will only have a limited effect.

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 analyzing corporate governance in PSU's, 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 the Parliament, Comptroller and Auditor General of India, Central Vigilance Commission and the Right to Information Act and on the other are susceptible to bureaucratic hurdles.

Good governance has been further augmented in the past few years by a rise in the recognition of CSR. This is based on an understanding of the expectations that our communities have regarding the 'social contract' that organizations have with communities. This may include public reporting, openness to input, access points for complaints about services or tips regarding illegal actions of employees.

Corporate governance and CSR are both extremely important to an organization. But it is not a natural thing to separate the two. If an organization has a well formed governance program in place, the same would possibly also take care of most of the social issues. Organizations are increasingly focusing on the impact of their business activity on society and in doing so many have created CSR programs to balance their operations. Taking responsibility for its impact on society means in the first instance that an organization accounts for its actions and the effect of the same on particular interests groups within the society.

In today's globalized, interconnected and competitive world, the way that environmental, social and corporate governance issues are managed is a part of the organization's overall management philosophy to compete successfully. Organizations

that perform better with regard to these issues can increase shareholder value by properly managing risks, anticipating regulatory action or accessing new markets while at the same time contributing to the sustainable development of the societies in which they operate.

Sustainable value also emanates from an organizations ability to adhere with a corporate culture of conscience and consciousness, transparency and openness, fairness and accountability, propriety and equity. Certain combinations of governance mechanism may work for certain periods of time. Change, however, will inevitably occur.

Development of norms and guidelines are an important first step in a serious effort to improve corporate governance. The bigger challenge in India, however, lies in the proper implementation of those rules at the ground level. More needs to be done to ensure adequate corporate governance in the average Indian company. Further, even the most prudent norms can be hoodwinked in a system plagued with widespread corruption.

Nevertheless, with the successful turnaround of Satyam with the commendable and active support of the Indian government (*which itself took swift & planned action, at the same time exercising considered restraint wherever required instead*) and with industry organizations and chambers of commerce themselves pushing for an improved corporate governance system, the future of corporate governance in India promises to be distinctly better than the past.