

# Raise the bar on corporate governance

THERE IS A NEED TO EXPAND THE NET & IMPROVE IMPLEMENTATION OF GOVERNANCE NORMS

THE START OF THIS CENTURY WAS MARKED by an emphasis on corporate governance, thanks largely to a string of collapses of several high profile companies. The world of business was shocked with both the scale and age of unethical and illegal operations. Consequently, the need for adoption of good corporate governance principles has not only got reinforced, but inevitably and inextricably, efforts to this end have gathered momentum every time a new corporate scandal came to light. And India is no exception to this phenomenon.

Events last year involving Satyam Computer Systems have prompted several questions and various forms of introspections on corporate governance practices, as well as brought focus on aspects relating to discipline 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 no dearth of legislation relating to corporate governance, it is the latter two aspects that need more focus in India. The challenge for policy-makers 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. India also needs 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 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.

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 PSUs, the consideration that often come up relate to the perceptions on the over-regulation of state-owned units in India, which on one hand are accountable to various authorities under several regulations including 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 organisations have with communities. This may include public reporting, openness to input, access points for complaints about services or tips regarding illegal actions of employees.



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Corporate governance and CSR are both extremely important to an organisation. But it is not a natural thing to separate the two. If an organisation has a well formed governance programme in place, the same would possibly also take care of most of the social issues. Organisations are increasingly focusing on the impact of their business activity on society and in doing so many have created CSR programmes to balance their operations. Taking responsibility for its impact on society means

in the first instance that an organisation takes accountability for its actions and the effect of the same on particular interests groups within the society.

In today's globalised, interconnected and competitive world, the way that environmental, social and corporate governance issues are managed is a part of the organisation's overall management philosophy to compete successfully. Organisations 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 organisation's 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 government — which itself took swift and planned action, at the same time exercising considered restraint wherever required instead — and with industry organisations 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.

*(Views are personal).*

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