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**I**n the wake of both the goings on at Satyam and the shake up of the financial system in developed countries, the issue of Corporate Governance has come back to the fore. How can such events and tendencies be avoided?

Before we get into the nitty-gritty of the issue I believe we need to reflect on the basics. In my view any system or society functions well when every one in a position of authority understands his or her moral obligation to put the interest of the institution ahead of his/her own. Only those individuals who reflect this in their behaviour deserve to be in positions of power. This is as true for a family, as it is of any institution, be it profit or non-profit.

Is this the process by which people are chosen to wield authority in our system? The government? The political system? Business?

holders. This is in a sense easier if the shareholding of the owner is large. His reputation, wealth and income depends on the prosperity of the company. Also, it is by and large easier at least in the first & second generations of the family.

But the vestiges of license and permit raj, the ground level corruption, the need for funding political parties etc., continue to soil the working of companies and once exceptions are made, they have a tendency to multiply.

Since corporates are disciplined by markets, by their consumers, financial markets and even labour markets, unless they have a death wish, they have an incentive to govern well. Once a reputation is gained this incentive increases. The benefits of a good reputation are real, both financially and otherwise and rebuilding a lost

# Governance

In fact the legacy of a colonial system has created role models of power which are corrosive. Some view a person as powerful if he does not obey rules, if he can misbehave and get away with it, has little notion of accountability. Is it a wonder that governance in our country is poor?

Coming to corporate governance, our situation is very different from that in the developed world, the US for example. There the CEO often has only a minor stake in the company. The issue is how to ensure that the agents of the shareholders, the managers, act in the best interests of the company when there is no owner to hold them accountable.

In our country, the major task is to ensure that the owner-manager desists from acting against the interest of the company and the small share-

holders. reputation is a Herculean task.

The core competitive advantage of a company is the quality of its people and the corporate reputation of a company plays an important role in attracting and retaining talent and in moulding their behaviour.

Half the article is over and I have yet not mentioned any statutory provisions. No clause 49. No Sarbanes-Oxley! Even though I had the privilege of chairing the first committee on Corporate Governance in the country, that of CII in 1998, and introducing much of the lexicon of Corporate Governance in the country.

I am of the opinion that principles are more important than ticking of boxes. In ensuring good corporate governance, it is accountability and responsibility of directors, disclosure & transpar-

ency and the practice of shareholder democracy that matter more than detailed oversight and an atmosphere of distrust of company managements. These principles have to be observed in spirit and letter by all publicly listed firms. It is a responsibility one accepts when one manages a publicly held company.

If one reviews cases of failure of Corporate Governance, one finds that quite often the company is a much feted one, be it Enron or Satyam. They also had a distinguished Board of Directors. And yet misgovernance happens and the endgame happens very rapidly. The move by SEBI/MCA to review cases where Independent Directors suddenly resign is a good step in preventive action.

Therefore, one has to be careful about what changes one recommends. The Corporate Governance model one seeks to develop has to be for the normal good corporate and not the crook. In any case, no corporate governance guidelines can prevent a dishonest management from cheating. Our Corporate Governance rules are pretty strin-

gent. For example the quarterly release of company results that we have is not in force in most of Europe or Japan.

Independent directors have an important role to play. They have to ensure that laws and regulations are complied with and the required information is brought to the attention of Board on a regular basis. Audited quarterly accounts and other statements including revenue and capital budgets, etc., must be put up to the Board as and when required. However, in a few meetings a year, most of which do not last for more than half a day, an independent director cannot be expected to prevent fraud by

management. Unless the independent director is in collusion with the management, he cannot be held responsible for the wrong actions of the latter.

The position of auditors is different. I cannot understand how auditors in Satyam did not realise what was happening. Just to say that they relied on the reports and statements given to them by the management is, in my view, irresponsible. It is the duty of the auditors, specially when they have been auditing the company's accounts for quite a few years, to make various checks with respect to cash, inventory, bank balance, etc., directly rather than rely on management alone. I am, therefore, sur-

prised at the clearance given to PwC by the Institute of Chartered Accountants of India though I do not know their reasons for doing so.

I have reservations about the suggestion to rotate auditors. An audit firm with integrity will not risk its reputation and do anything wrong just because it is auditing the books of a company for more than, say, three years. Some knowledge and familiarity with the function-

ing of a company is required and this can take 2 – 3 years to develop depending on the size and complexity of the company.

Good corporate governance is critical in gaining the confidence of investors and hence funding development of our country. However, I believe markets together with sensible regulations are more likely to discipline corporates rather than intrusive regulation. ■

  
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