
Current Contexts Of Corporate Governance

DR. U.K. SEN

*Special Secretary to the Government of India
Department of Revenue*

We are in the midst of a deregulated environment in which the current contexts of corporate governance have assumed an enlarged meaning. This is a topic which has been engaging the mind of each one of us, off and on. In a democratic policy, although this is slowly becoming a buzz word, it is certainly something which we would all like to understand, reflect and implement in our day to day activities as we individually and collectively participate in various activities in the corporate world.

We are in an age of transaction. What are the factors which have brought the so-called changed scenario in today's world? I can list a few of them: they are globalisation, convergence and consolidation, e-business, to name a few. We have come out of a historically, nay, geographically valid heterogeneous global markets to homogeneous global markets. The corporate world was fractured and multipolar, and barring slow growth of international trade, corporate focus did not cater to global dimensions, and this shift has happened within a very short time between early 1980s and mid 1990s. While the developed world faced the onslaught of globalisation slightly earlier in the day, the winds of change have also cast its toll on the developing world. In this context, we cannot but take note of the various initiatives taken by the developed and developing countries during this period which led to the conclusion of Marrakech Agreement of 15th April 1994 with the creation of WTO for bringing the North and South together. What was it all about? To bring the world closer, to unlock the barriers to trade - financial, technical and many more. The environment today looks quite different from the yester years, and it is in this rapidly changing environment that our

understanding of corporate governance must reside.

When we talk of good governance, it brings to mind three sectors where good governance should prevail: government, civil societies, and corporate sectors which includes transnational corporations. When we talk of corporate governance in the corporate sector, what immediately comes to mind is to establish a control system of structure by which the decision making process and communication are carried out with a good degree of accountability to the stake holders.

What are the main attributes of good governance? I can list out a few of them. They are accountability which covers both financial and political transparency, easy access to information, popular participation in decision making and implementation, responsiveness, efficient delivery system of goods, enforcement of rule of law, client citizen satisfaction and, of course, responsiveness towards promoting a social and economic order.

When we talk of all these elements, we have to take into consideration the economic reforms pursued by the developed and developing countries in their quest to improve the quality of life by bringing about changes in the corporate management through a greater degree of professionalism. One of the many emerging issues we are possibly looking into is whether there is a mismatch between the private interests of business organisation with public interest. What we are basically looking into here is the setting up of highest standards of ethical behaviour keeping the welfare of people foremost in our mind. When

we talk of corporate governance, we cannot ignore the environment in which the corporate world has to operate; that is active parliament and state legislatures, independent judiciary, free media. The canons of governance should not degenerate into epitaphs. The Directive principles of State policy enshrined in our Constitution, I believe, is the guiding star or the lodestone for operationalising good governance in the corporate world. Transparency in the decision making process through empowerment and strengthening the Board of Directors is imperative, as well functioning Boards and improved Board room practices will trigger not only good but better corporate governance in business and industry.

How one ensures whether a company is managed efficiently with right kind of business strategy? This will certainly be an area of concern of all shareholders. To enable the management to look beyond their vision, best practices, like induction of experts, professionals, technocrats should be followed. It is another matter for decision, which will vary from one organisation to another, as to how many of them should be in the Board and how many in the organisation itself. It is for the stakeholders to decide.

Good governance can only dwell in an economic and legal environment which is responsive to the changing scenario. This calls for proper appreciation of the complex, trading environment and consequential realignment of business strategies. This calls for an alert institutional mechanism which can activate alarm bells for tuning the administrative apparatus for effective interplay of new parameters. For public enterprises, arrangements exist through the parliamentary system of government, free print media, and independent judiciary to bring about good corporate governance. There are institutional mechanisms like Committee on Public Undertakings which are watchdogs to oversee and forestall any slippages from corporate malpractices and for taking remedial measures. How does one go about in organisations other than public enterprises? What are the systemic improvements required to ensure that corporate accountability merge into public accountability? How does one go about these issues relating to corporate ethics? Should there not be a so called watch dog committee to undertake similar exercises as is in the case of the public enterprises through parliamentary controls? I believe this entire issue calls for

introspection. We are aware that disclosures on financial statements and even internal governance made by press and financial analysis during the last few years have definitely contributed to better corporate governance. This is not enough, to my mind. There is a strong case for creation of an Ethics Committee to act as an NGO watchdog, to look beyond the portals of the operating institutions. The committee will have a mandate to institutionalise canons of corporate behaviour. We may call it an ethics trail. An ethical environment in the corporate world will lead to dovetailing corporation's commitment to social responsibilities with corporate governance. It is the duty of the Board to ensure that good corporate governance enables the State to fine tune laws of the land in the light of Directive Principles of State Policy.

There are many areas of activity for achieving good corporate governance.

Let us elucidate a few of them.

Board room discussions must cover.

- Annual operating plans and budgets, manpower and overhead budgets.
- Internal audit reports, including vigilance cases
- Effluent and pollution problems
- Default in payment of interests etc., or non payment of the principal to any secured creditor or financial institution
- Details of any collaboration agreement
- Recruitment and remuneration of employees just below Board level appointments
- Labour problems and action taken reports
- Weak area management including renewal and replacements of old machinery
- Performance of the Corporation on a regular basis

-
- Engaging external consultants or commissioning special studies as in the Senate Committee in the US
 - Financial disclosures on debt exposure should be strengthened

How does one bring about implementation of a code for good corporate governance and make it move towards a goal of best practices? While establishment of a control system and structure is a prerequisite to corporate governance, transparency in functioning is the key tenet to achieve the desired goals. It is not for the State to bind the corporate world with laws and regulations, but it is for the corporate world to show the beacon of high standards of corporate activity. For any meaningful transition to globalisation would call for confidence building measures with global corporate world, where proper managerial and financial disclosures, transparent explanation of major corporate decisions are appreciated before clinching any meaningful business partnerships.

The role of the State to create, or shall we say, to bring about a corporate friendly environment comes to my mind. A gentle nudge to make it work. Good ethics would result in good practices, and good practices will result in better business environment. Good corporate governance should ultimately evolve into better governance through a mature relationship between the key players in a global scenario.

References :

1. *D. Bandyopadhyay, Administration, Decentralisation and Good Governance' EPW, Nov 30, 1996.*
2. *L.C. Gupta, 'Reforming Corporate Governance' Economic Times, April 14, 1999.*
3. *Standing Committee on Public Enterprises, 'Corporate Governance & PSUs' Oct 1997.*
4. *Confederation of Indian Industry, 'Desirable Corporate Governance, A Code' 19 April, 1997.*