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Is Good Corporate Governance – Good Business?



It is indeed a great privilege to be here amongst all of you to share my thoughts on a topic “Is Good Corporate Governance – Good Business?”

The corporations of today are no longer sheer economic entities. These are the engines of national transformation. In an age where capital flows worldwide, a culture of corporate governance has indeed become the need for future growth and stability of the company as well as the economy.

The process of capital re-allocation has not only increased the long-term earnings growth potential of the economy as a whole, but has also widened the degree of uncertainty for individual firms.

Ours is the first generation in the history of mankind that dares to believe in the sharing of knowledge and the practicality of the concept of making the benefits of civilization available to the whole human race. It is here that we welcome a new era of knowledge capital. We all possess knowledge but we continue to lack awareness for “awareness arises ie but we7€16.7815 - TD-1 7



Globalization and economic liberalization have brought about changes and each one present here and around the world realize the need to adapt to this changed business environment. Change management has today become one of the most critical factors of success for implementing economic decisions around the world.

However, with the huge global opportunities available, there also seem to be great challenges to ensure that corporate entities are able to derive maximum economic value on the resources they have raised and ensure that there is a fair return given to each stakeholder.

The collapse of some of the world's most envious companies like Enron, Adelphia, Global Crossing, Tyco, Worldcom, Parmalat, Lehman Brothers and Satyam have positioned issues of corporate governance as most critical aspects to be addressed.

Corporate Governance is the system on how the objectives of the company are set and achieved, how risk is monitored and assessed, and how performance is optimized.



To answer the question raised in the topic “Is Good Corporate Governance – Good Business” it is pertinent, that we first understand the objective that lies at the essence of any business enterprise. Business is a commercial activity carried out with an objective to make a profit. An entrepreneur running a business is always looking for opportunities in the economy. These opportunities arise when there are gaps to be filled in the economy, when there are needs in terms of goods and services required by consumers - in other words “demands” and there needs to be a supply to meet these demands. Successful business knows how to design products and services based on the market forces.

Good corporate governance structures encourage companies to create value through entrepreneurship, innovation, development and exploration and provide accountability and control system commensurate with the risks involved. There is no single model of good corporate governance. New techniques of implementing regulations and monitoring issues of governance are being developed and promoted. The Voluntary Guidelines on Corporate Governance 2009 issued by the Ministry of Corporate Affairs in India is also



an important step for achieving good corporate governance. Around the world there are various hefty regulations that seek to monitor issues of corporate governance. Be it the Sarbanes Oxley, Derek Higgs and the Nareshchandra Committee in India. However, in spite of the rules and regulations, failures of governance continue to be the core reason for the recent financial downturn which turned some of the largest investment / corporate houses into a sham.

Lehman Brothers Holdings proved to be the biggest bankruptcy in the U.S. history with more than \$600 billion of debt. The previous largest bankruptcy was that of WorldCom Inc. in July 2002, which had \$104 billion of assets. As Lehman filed for bankruptcy, an already distressed financial market suffered further shock with the Dow experiencing its largest one day point loss. What followed was what many have called the “perfect storm” of economic distress factors and eventually a \$700bn bailout package.

Before its bankruptcy in late 2001, *Fortune* had named Enron "America's Most Innovative Company" for six consecutive years. In just 15 years, Enron



had grown from nowhere to be America's seventh largest company, employing 21,000 staff in more than 40 countries with claimed revenues of nearly \$101 billion in 2000. At the end of 2001, it was revealed that its reported financial condition was sustained substantially by institutionalized, systematic, and creatively planned accounting fraud. The scandal also brought into question the accounting practices of many corporations throughout the United States and was a factor in the creation of the Sarbanes-Oxley Act of 2002.

Companies like Enron and Lehman Brothers were big corporate entities and who would have dreamt about their sudden collapse.

In India the biggest scam is the recent case of Satyam. A company that has received several awards for the way it was managed. The Satyam scam has been dubbed "India's Enron." The company had falsified its accounts for years, overstating revenues and inflating profits by \$1 billion. Immediately following the confession, Satyam's shareholders took a direct hit as the



company's share price crashed 77% to Rs. 30, a far cry from its 52-week high of Rs. 544 last May..

Could we ever believe that such large highly regarded companies like Enron, Lehman Brothers and now Satyam in India could ever fail and fall apart overnight? These cases show that companies that look profitable and stable from outside may not be actually so. This leads us to the moot question do these voluminous legislations actually help in monitoring the implementing good Corporate Governance norms to protect stakeholders' interests. Do we need more regulations or would the voluntary adoption of Corporate Governance norms be a better approach.

Why do we still see corporate downfall resulting directly from governance related issues even though there are a host of rules and regulations built around them? The answer would lie somewhere in the misplaced focus of our modern day entrepreneurs - the character that defines modern day business management.



Today, unlike traditional business enterprises in the past, business is a number game and entrepreneurs are more focused on building their balance sheets. Their focus is mainly to attract funds from investors and take pleasure in creating wealth by increasing their market capitalization. Traditional entrepreneurs concentrated on innovation, creating, maintain and sustaining business.

Today entrepreneurs are more interested in creating business entities that create quick value and then finding an exit option. In such a scenario the traditional business concept of creating long-term value for the economy and the stakeholder takes a back seat. At a time when the failure of large and trusted enterprises has shaken the faith of people in business ethics and the essence of good corporate governance, it is important for Boards to use their experience and business acumen to restore the trust and confidence that has been lost.

Given today's environment of mistrust, the focus for the Board should be to go a step further and make sure that enterprises that they represent are



working on the right business strategy that brings long-term value for society. Creating long-term value for society, calls for ensuring transparency, good corporate governance ethics and a strong corporate culture, all of which are contributing factors for the economic growth of any nation.

Would companies build Board based on this long term value generation strategy? I believe it is question of mindset. Young entrepreneurs should seek to apply traditional business principles of value for society if they are to survive the current crises in business management. Beyond the intention of making money, they need to focus on creating products and services of long-lasting value for society.

Countries around the world have been adopting different approaches to bring about better implementation of Corporate Governance. France, of instance, is set to bring about a revolution as it seeks to pass a legislation that will force big companies to appoint women to 40 per cent of their Boardroom seats. These regulations would definitely change the character of the Board Room but will they provide a solution to bring about better Corporate Governance?



The fall of great enterprises across the world is enough to prove that good corporate governance actually means good business. With globalization and the world becoming one, thanks to the revolution in the communication technology, huge innovation and credit to be given to the great brains and youngsters of this generation, focus should be on creating value to the economy and all stakeholders.

The corporations of today are no longer sheer economic entities. These are the engines of national transformation. In an age, where capital flows world-wide, a culture of corporate governance has become the need for the future growth and stability of the company as well as the economy.

In such as environment, good Corporate Governance is the need of the hour. It would restore confidence in the investors, bring back flight of capital and saving into the market which would translate into more innovation and create a better world. Adopting high standards in managing business enterprises, help firms take their place in the global corporate community, becoming better partners to do business with.