Ideal Corporate Governance

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Corporate governance refers to the system by which Corporations are directed and controlled. The governance structure specifies the distribution of rights and responsibilities among different participants in the Corporation (such as the board of directors, managers, shareholders, creditors, auditors, regulators, and other stakeholders) and specifies the rules and procedures for making decisions in corporate affairs. Governance provides the structure through which Corporations set and pursue their objectives, while reflecting the context of the social, regulatory and market environment. Governance is a mechanism for monitoring the actions, policies and decisions of Corporations. Governance involves the alignment of interests among the stakeholders.

Corporate governance has also been defined as "a system of law and sound approaches by which Corporations are directed and controlled focusing on the internal and external corporate structures with the intention of monitoring the actions of management and directors and thereby mitigating agency risks which may stem from the misdeeds of corporate officers." In contemporary business Corporations, the main external stakeholder groups are shareholders, debt holders, trade creditors, suppliers, customers and communities affected by the Corporation's activities. Internal stakeholders are the board of directors, executives, and other employees.

Corporate Governance is an issue that has been much talked and discussed in our societies, now-a-days. Whenever, we hear about Corporate Governance, the first thing that occurs to our mind is "why corporate governance alone" and "not other types of governances" such as economic governance, political governance, social governance and, even religious and spiritual governance. Why have all these governances become so controversial? Why do common people forced

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to disbelieve every institution? Who are responsible for this pathetic situation? What are the reasons?

Institutions may be political, economic, social, business, religious and spiritual. They are all created and built for the welfare of every one; for every one's good. Mankind has taken thousands of years for building these different types of institutions to serve various stakeholders. But it takes a few years for destroying all those institutions for self-interest as well as evil ends such as greed and vengeance. Man has become victim to vices and evils.

Business organizations or "corporates" have started hitting "headlines" with "failures and frauds". Failures which are not "man-made or man-created" can always be excused and ignored. "Frauds leading to collapses" which are created by human beings cannot be ignored. Nor can they be excused. Corporate frauds are not only found in our country. The collapse of giant corporations such as Enron, World com, Adelphia, Tyco, Global Crossing, etc., in USA are not still forgotten. India also experienced significant financial scandals such as the Mundras scam involving LIC (1957), Raj Sethia's scandal involving Punjab National Bank (1985), Harshad Mehta's scandal involving UTI, SBI (1992), Ketan Parekh's fraud involving Bank of India, Global Trust Bank scam (2004), and the not so old scandal of Satyam Computers. Who knows how many frauds and scandals are going unnoticed with the smartness of corporate heads?

Corporate governance has assumed more importance in our country mainly in the wake of economic liberalization and deregulation of industry and business. The role of industry has become so vital for the economy that we cannot afford to allow bad governance. Our economy is one of the fast growing economies of the world. Any incident or event that takes place in the economy would result in disrupting the image of the country. There are several factors which are essential for the business in a long run like employee's welfare, environmental concern, success and career of managers, decision making, personal and social values of entrepreneur and country, avoiding penalties, etc.

What is Corporate Governance?

Corporate Governance comprises the systems and processes which ensure the efficient functioning of the firm in a transparent manner for the benefit of all stakeholders. Sir Adrian Cadbury states that "Corporate governance is holding the balance between economic and social goals and between individual and community goals". It is the set of processes, customs, policies, laws and institutions affecting the way a corporation is directed and controlled. Corporates need to be governed in such a way that any stakeholder may be workers, shareholders, creditors, customers, society, should not be subjected to any sort of exploitation and to the advantage of the corporate or corporate heads. Good governance is manifested by non-violation of Government laws, best use of human resources in the organization, identification with the community, etc. Good governance is possible only when the organizations and their heads are ethical. Ethical Corporate heads bring in good and ethical governance. A number of seminars and discussions have been taking place on the issue of Corporate Governance. But the need has not disappeared.

"Corporate governance is about owners and the managers operating as the trustees on behalf of every shareholder – large or small." - N. R. Narayana Murthy, Infosys Technologies Limited

Let us probe into the reason or cause as to why laws, codes and restrictions fail. Human beings are swayed away by "infectious greed". They have failed in understanding that the purpose, ("ardham / paramardham"), of human life is not to amass wealth but to attain peace and become responsible for contributing something to the society. People are moving from physiological needs to esteem needs in the Maslowian need hierarchy ladder but are failing to reach and achieve "self-actualization". Human beings have failed to understand the message of Adi Sankaracharya who said that "human beings are supposed to drive away the greed for amassing material wealth and concentrate on earning wealth through virtuous deeds."

Besides the failure in understanding the purpose of life, I doubt that the corporate heads take it for granted that their sins, frauds and illegal activities would go unnoticed or uncaught. They should realize the fact that one day or other, their sins and frauds are unearthed.

We are all familiar with Gandhiji's "Trusteeship" concept. We can look at a not so familiar illustration from the writings of John Ruskin who had greatly influenced Gandhiji.

Ruskin relates the story of a Jewish merchant of great fortune, centuries before the Christian era, through trading on the Gold Coast, whose maxims for wealth acquisition, held in great respect, demonstrated that "it is possible for a very practical and acquisitive tradesman to hold through a not unsuccessful career, that principle of distinction between well-gotten and ill-gotten wealth." In our own times we have been witness to commercially successful individuals and corporations with a reputation for clean trading and business practices.

What is the purpose of the corporation? It is to give back to society what it has earned from society. What is the role of the CEO? It is to be the ultimate servant of society. It is not that he does it all; the sweat and the labours of the many hundreds of thousands in the company cause the company to achieve. The leader's job is to communicate with them. But it takes a superhero to actually downplay his own role and promote the idea that he happens to be the trustee of the efforts of all the people who work for him and help the company to do so well.

Corporate heads must also realize that when they are caught, no one would be around them. They are deserted and thrown out. Haven't we seen it with Satyam Ramalinga Raju, a person who was highly honored and admired. Tables have turned. Where is he now? Who is caring to talk to him, console him or go to his rescue? Other professionals of the company were also jailed with him for their association with Ramalinga Raju. The CEOs or Chartered Accountants or bankers or independent directors, for that matter, all Corporate heads must exercise self-restraint and constantly subject themselves to "testing".

The acceptance, by management, of the inalienable rights of shareholders as the true owners of the corporation and of their own role as trustees on behalf of the shareholders is about commitment to values, about ethical business conduct and about making a distinction between personal & corporate funds in the management of a company.

The readers may be getting surprised as to how and why we are focusing on aspects like driving away greed and lust for individual supremacy. Is it possible? We wish that it should become. A good number of readers of this article may be professionals, researchers, teachers and students. The present students are future managers of the business organizations and decide their fate and future. Teachers have a unique opportunity in orienting the thinking of students towards virtuous corporate governance rather than materialistic prosperity. Teachers are "change makers" and "torch bearers". Students have to imbibe the essence of great Indian thinking and preaching of great philosophers of yore.

Corporate Heads are obsessed with comparing their profits, sales, market share with those of earlier years and with those of other companies in the industry. They are constantly engulfed by these economic and materialistic things. It is how they are also evaluated in the society. That's what we are also teaching our students in the class rooms. Why are not we teaching our students to evaluate the performance of corporates on the basis of their contribution to society's peace and order? Let our students be taught in Indian way and Gandhian way. Corporates are obsessed with achieving the goals or targets, somehow or other. The ways to achieve the goals, targets, market share should be equally pious, peaceful and transparent. That's what Gandhiji has said "we reap exactly what we sow". The means are not just the means, but everything that determines the nature of the end.

Gandhiji's Trusteeship Theory:

Ideal Corporate governance is possible only through Gandhian theory of Trusteeship. His thought is not against the creation of surplus. He only preaches that one has to accept voluntary discipline and self-restraint in the form of trusteeship to eliminate its use as the instrument of exploitation or as a source of evil. According to him, all men are trustees in society. The doctrine of trusteeship has its origin in the Bhagavad Gita; in the principle of "**aparigraha**" (Non-possession) and "**samabhava**" (equalism). Dr. S. Radhakrishnan points out that the Hindu (Indian) ethics is that 'property is a mandate held by its possession for the common use and benefit of the common wealth'.

India Inc. is not without business or industrial houses which are wedded to good Corporate governance. Tata group has been following the maxim "leadership with trust" to promote ethical conduct throughout the group. It circulates 'Tata Code of Conduct' among all its employees covering areas such as commitment towards national interest, abhorrence of bribery and corruption, avoidance of conflicts of interest and emphasis on corporate social responsibility. One of the principles among the five guiding principles circulated by JRD Tata which deserves our commendation is: '**no success or achievement in material terms is worthwhile unless it serves the needs or interests of the country and its people and is achieved by fair and honest means'**. Chennai-based Murugappa group having 29 companies with a total turnover of Rs.9,582crores during 2007-08, provides another example. Its business philosophy is indicated by a couplet from Kautilya's ArthaSastra, the ancient Indian treatise on wealth creation and governance.

"The fundamental principle of economic activity is that no man you transact with will lose; then you shall not".

Corporate governance as the set of processes, customs, policies, codes of conduct, laws and institutions, and executives and staff are only 'instruments' and their usefulness or uselessness depends, as the Panchatantra categorically put it , on the 'quality' of the user, namely the top-management, i.e. the chief executive officer and the board of directors of a corporation. The key elements of corporate governance indicate the qualities like 'honesty, trust and integrity, openness, performance orientation, responsibility and accountability, mutual respect, and commitment to the organization, etc' of the user.

Murugappa group sold away the IMFL (Indian Made Foreign Liquor) division of EID Parry in 1989 as it did not fit into the value system of the group. J.J. Irani, Director of Tata sons, once described Murugappa group as the Tatas of South India because of its ethical values and integrity. This is evident from the fact that Murugappa group won the prestigious "IMD (Integrated Management Development) Distinguished Family Business Award given by IMD Institute of Switzerland.

The present situation is that corporates with bad governance have outnumbered the corporates with good governance. Legislations made by Government for preventing bad governance become useful only when the evil or devil of greed is driven out of the minds of Corporates. A great revolution, shall we call it "GANDHIGIRI", has to sweep this country for cleansing the governance of all institutions, why corporate alone?

Let us dream and hope that India would emerge as "an example" and "role model" for the rest of the world in the "best governance of corporates" by embracing Gandhian Philosophy.

Sincerity is impossible, unless it pervade the whole being, and the pretence of it saps the very foundation of character.

James Russell Lowell