

Corporate governance bar must be raised

Voluntary adoption of ethical and transparent business practices alongside a lighter regulatory environment, are called for

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As a \$3-trillion economy aspiring to enhance its global position, India is transforming its business environment and looking to entrepreneurs as wealth-creators. Ways of doing business are changing to align with global patterns. Today, governments and regulatory agencies expect companies to conform to global best practices for better functioning of markets and convergence of business practices with societal needs.

In this complex business environment, one fundamental factor that enables companies to grow within the sandbox of regulatory compliance and societal expectations is high-quality corporate governance. The next level of business transformation requires companies to go beyond mere adherence to the law and build an integral spirit of governance.

Governance standards

The government has prioritised creating a facilitative regulatory structure over the years. The Ministry of Corporate Affairs brought out the

Corporate Governance Voluntary Guidelines in 2009 and, in 2012, it constituted an expert committee under the chairmanship of then Confederation of Indian Industry (CII) President, Adi Godrej. The committee's report prescribed 17 'Guiding Principles of Corporate Governance' which formed the basis for enhancing governance standards in the country. In October 2017, the report of the Committee on Corporate Governance under the leadership of Uday Kotak was released and several of the suggestions were incorporated into the SEBI (Listing Obligations and Disclosure Requirements) Regulations.

Recently, to build trust, the government took the step of amending the Companies Act, 2013 for the re-categorisation of 16 'compoundable offences' to 'civil defaults', and also set up the Company Law Committee, which has recommended further reclassifying 46 offences. An independent director's databank has been set up to register experts. In January this year, SEBI deferred its directive for the top 500 listed entities by market capitalisation to separate the roles of chairman and managing director by two years till



All stakeholders must be embraced

April 2022. It is also in the process of strengthening norms of related party transactions.

A combination of global practices, existing legal provisions, good-to-have principles, and forward-looking concepts comprise the next level of corporate governance. These principles will see voluntary practices for adherence; however, adopting them will help the company to meet the challenges of a changing business and regulatory environment.

Essential practices

The CII, which has a long engagement in corporate governance, has drafted an updated set of viable

guidelines for companies to inculcate voluntarily. First, the top management, the corporate environment, and internal culture and values are the most important factors for integrity.

Right board leadership is essential to develop the culture of commitment to integrity, fairness, honesty, transparency and ethical conduct. This culture must be disseminated to all employees through training programmes. Boards need to balance their supervisory and stewardship roles and develop key result areas followed up with monitoring of results. Information flow between management and boards is integral to efficient functioning.

Companies must put in place clear policies and practices for zero tolerance of bribery and corruption, as well as anti-competitive practices, to prevent market manipulation as also precautions to prevent money laundering.

The integrity of financial statements is the foundation of the stakeholders' trust and the functioning of audit committees is critical to building internal controls. All information should be made

available to auditors, including through direct engagement between audit committees and auditors.

Risk management is a high priority in an uncertain environment, and includes physical, technological, financial and cyber risks. A risk management committee is essential to review and address vulnerabilities.

Finally, the concept and principles of governance for a company need to embrace all stakeholders, including the government, lenders, creditors, employees, customers, vendors, and the community.

Concurrently, the government needs to ensure clear 'safe harbours' for independent directors through safeguards in the Companies Act that will not make them liable for the company's illegal activities unless there is evidence of their involvement. The process of decriminalisation of business laws should be continued. Good corporate governance, going beyond the letter of law, promotes ease of doing business and thereby adds to growth.

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