Year X, Vol. I, Summer 2009

Managing Change and Beyond...

tapasya

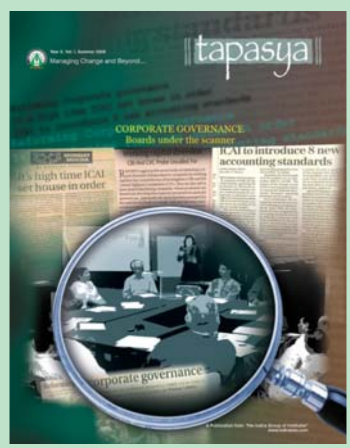
CORPORATE GOVERNANCE
Boards under the scanner

A Publication from The Indira Group of Institutes®
www.indiraedu.com

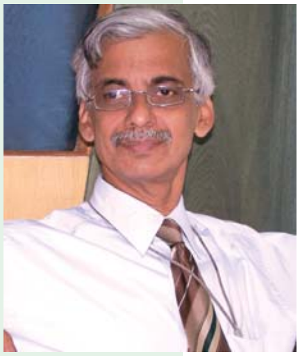
Indira Institute of Management – Pune (IIMP)
Indira School of Business Studies (ISBS)
Indira School of Career Studies (ISCS)
Indira School of Communication (ISC)

Indira Group of Institutes

Editorial Office : 85/5A, Tathawade, Near Wakad Police Chowkey,
Pune - 411 033.
Phone : (020) 22933280-84
Fax : (020) 22934742
E-mail : vijai@indiraedu.com
Website : www.indiraedu.com
www.indiraundergrads.ac.in



The past few months have seen the subject of Corporate Governance taking centre stage in India Inc. and protecting stakeholder interest becoming its mission. The financial improprieties of a bad apple has seen the Boards of the corporate world being put under the scanner for investor-friendly practices.



Editorial

P. G. Vijairaghavan

The last editorial of Tapasya had little of substance to comment on the country's growth and state of the economy. Indeed every possible parameter used to judge the economy dipped one's confidence just that much more resulting in the sum total of melancholy that we had no option but to serve through this column. But as has been oft spoken, tough times do not last, tough men do.

Perhaps one of the toughest times for India has been witnessed during the last few months with job losses peaking (and more expected to follow in the coming months), industrial production taking a nosedive, all indices - be it the sensex or the core sector production making a beeline for the floor, sector after sector recording previously unheard of fall in growth levels, giving us little to cheer about. To complete the picture of confusion and uncertainty, we have a host of figures of expected GDP growth in FY-09 from various agencies ! While the Reserve Bank forecasts a near 7% growth, the advance estimates of CSO has it at 7.1% Government has been vacillating between 7.5 and 7.0, while international organizations like the IMF do not predict any better than 6%, but Moody's anticipated a rather optimistic 7.9% in August 2008!

Nevertheless, as the poet hath said, “every cloud has a silver lining…” and we must keep looking for the sliver of light at the end of the tunnel. Is it anywhere near the dark blanket that we have for growth and development today? It would seem so, if we consider strands of positive information trickling in… For one thing, the runaway inflation has reversed faster than it had taken off - from a high of 13% in mid 2008, it is today at a 20 year, perilous low of 0.3% as of March, but Dunn and Bradstreet and ICRIER, have feared a possible deflationary state, even if for a short while, for India, if the rate of fall of inflation continues to be as steep. While inflation has registered a welcome fall, it does not seem to be reflected in the prices of essential commodities which is what matters to the common man in fact food prices and other essential commodities have registered a further rise of almost 20 to 47% since March 2008 for various essential food items in the last one year, even as inflation makes a southward journey. Again, the Reserve Bank has something encouraging to say about the revival of the Indian economy; in fact, it is hopeful of India coming out of the recession faster than the rest of the world, which is most welcome and heartening. That gives hope for the lakhs rendered jobless and many more who have undergone the trauma of pay cuts etc. in the last one year. In the middle of all this is the assertion by Ben Bernanke, Chairman, Federal Reserve that the recession in the US will probably show its back by year end. That should come as some consolation for a country that has been through a roller coaster ride into the depths of gloom and despair with the ride going only one way down - all these months!

“*The Reserve Bank has something encouraging to say about the revival of the Indian economy; in fact, it is hopeful of India coming out of the recession faster than the rest of the world, which is most welcome and heartening. That gives hope for the lakhs rendered jobless and many more...*”

The other bit of welcome development has been the coming of Barack Obama to the US Presidency and having taken over from George Bush one can be cynical and say any decision Obama takes, be it on the US economy, revitalizing the job market or foreign policy, can only improve matters; but the fact is, he seems to have started in earnest, and even if some of his decisions (like restrictions on H1B visas, outsourcing etc) can be debated ad nauseum by us in India, one should be happy to atleast see some movement in the direction of putting the US economy back on its feet. In the process, one can hope the rest of the world will also find solace because it has been so hopelessly dovetailed to the US development story.

As for India, one can almost see the sighs waiting to exhale at the thought of a rejuvenation. All said and done, we have done fairly well to withstand the fiery onslaught of the economic downturn that has all but felled the world's biggest economy!

But it is not the economy alone that has almost pulled the rug from under our feet this last quarter. While one can find some consolation in the fact that the downturn was a world wide phenomenon, can we say the same about the Rs 7700 cr. Satyam corporate heist? Yes, if we consider Enron, and Worldcom whose chiefs no doubt gave our desi perpetrator the "inspiration" (from Enron CEO and Chairman Ken Lay and former CFO Andrew Fastow to Worldcom honchos Ebbers, and a host of others) to reach for the non-existent profits, except in the cooked up books and in his mind! Which has thrown up some disturbing questions about corporate governance for corporate India to discuss, debate and deliver answers to the millions of investors whose only reason for investing in such companies is their faith in the management, since every investor does not follow the mumbo jumbo of PE ratios, insider trading and valuations!

> *"All said and done, we have done fairly well to withstand the fiery onslaught of the economic downturn that has all but felled the world's biggest economy!"*

What exactly is corporate governance? Is it what comes out of the thinking of someone like N.R. Narayana Murthy, whose fiery commitment to transparency and disclosure can be said to have set the healthy trend for corporates in the country? Or is it the result of the considered opinion of regulatory bodies like SEBI and RBI? In fact, we even ask whether corporate governance can, if at all, ensure that the investor is fully protected at all times by provisions in the statute, unless the management and Boards of corporate India decide to go beyond these norms to keep the investor individual or institutional, in the loop? How do independent Directors on the Board play their part in ensuring the Board keeps to the straight and narrow path?

Corporate Governance has become a byword for credibility of Managements, taken to its logical meaning, it has little to do with their profitability or efficiency, but everything with their intent. Tapasya believes that given the basic intention of protecting the stakeholders' wealth at all times, any company can deliver good results, because more than anything else, credibility opens doors to more talent, finance, and other resources required in doing so. Ultimately, without the benign desire to protect the stakeholder, and an alert and active investor community, the norms become just another statute as so many indeed, already consigned to the pages of obscurity and oblivion.

We have in this issue brought some of the best minds in India on the subject of Corporate Governance for the readership to better comprehend what can be done by corporates and the government to prevent another Satyam ever scarring the image of India Inc. Plus a special column on good grooming for the upwardly mobile corporate executive. Enjoy reading.

Contents

This column focuses on and profiles individuals who, through the power of their hard work and the force of their personality have become success stories and have created a niche for themselves in society.

Mr. G. V. Ramakrishna, ex-Chairman, SEBI and Disinvestment Commission

He is soft spoken. He is gentle in the choice of words and is frail built. In fact, when he speaks you have to strain to hear him in the cacophony of the airconditioner in the background. He measures every word he says in the balance of probity and truth and yet brings out through his words, the passion for honest work that he is known for. At first glance, you can be pardoned for believing that he is the archetypal pliant bureaucrat who can be moulded to the will of the political boss of the day. Look closer, and you see steel in his innards as he boldly ventures into that land where many have ventured only to comply or meekly retreat, and few have come out unscathed. For such is the world of politicians and powerful men, that GV Ramakrishna has inhabited for over 50 years, that few can hide their admiration and respect for his mission to bring a fair name to the much maligned world of the bureaucrat. His unflinching hold on the principles of honesty and total command of the subject at hand, is well known - be it as Petroleum Secretary, or as Chairman Sebi and Disinvestment Commission. In fact, after the transparent commitment to principles, it is his facile control of the mechanics of the subject that must be daunting to those who have known only the easy way to achieve results. (See box)

Mr. G. V. Ramakrishna has truly had the toast of postings as a public servant and has proved equal to the task at each of these. Allotted to the Andhra Pradesh cadre on his selection to the IAS in 1952, he rose to the position of Secretary, Government of India before retirement and had the distinction of being recalled by four Prime Ministers to serve under them in various capacities Chairman, SEBI, Chairman Disinvestment Commission, Member, Planning Commission, and Member, Prime Minister's Economic Advisory Council. Currently, he is Chairman Emeritus of the Construction Industry Development Council, set up jointly by the Planning Commission and the Construction Industry to achieve excellence in all areas of the construction activity. Mr. Ramakrishna is a recipient of the Padma Bhushan in 2005. He has authored a book, ***Two Score and Ten My experiences in Government*** *that is an eye opener on the world of power, authority and all that goes with it.*

In conversation with P. G. Vijairaghavan

Q. As Chairman of SEBI, far-reaching changes were introduced into the system by you, to ensure corporate governance, particularly with the setting up of NSE. Was the purpose of NSE fulfilled?

NSE has by and large fulfilled the role expected of it when it was set up. When I took over as Chairman, SEBI The Bombay Stock Exchange, was basically a Stock Exchange of the brokers, for the brokers and run by the Brokers and they were totally insensitive to the interest of investors and even the small brokers. Hence, I wanted it to become more broadbased and representative of all stakeholders, particularly the small investor. This however, did not get any positive support from them since it would involve giving up their stranglehold on the BSE. I gave them two months to come out with their own proposal for the purpose, but did not get a positive response from them. So I made a recommendation to Govt. to start a new institution to be called the National Stock Exchange which would be run fully on professional lines. Mr. Pherwani, who was former Chairman of UTI expressed the view that NSE could deal in debt instruments alone, and not work as a full fledged stock exchange, while BSE could continue to deal with Stocks as before, probably to meet the ends of the stock brokers as well as my own views on the matter. I disagreed since the purpose of my recommendation, namely to ensure that the BSE's fiefdom was restricted and transparency introduced in dealings was not being achieved. I therefore recommended to Government for starting a new Institution named the National Stock Exchange which would function as a full fledged Stock Exchange. The same was accepted by the Government and the NSE came into being soon thereafter.

Q. After the Satyam and other financial scams of recent dates, what further reforms could be introduced to improve governance of corporates?

By and large, NSE has certainly lived up to the mandate it was given. But as you know, for every reform measure, there are thousands of people working to find out ways to bypass the same and identify loopholes for the purpose. Often, we cannot match the ingenuity of such people who concentrate all their energies on finding such loopholes and matching the wits of regulators. That is why it is essential to continually evolve the regulating mechanism and keep one step ahead of the manipulators in the market. As always, there is scope for further improvement in its functioning on further reforms. I have given some suggestions in my article for your journal.

> *"By and large, NSE has certainly lived up to the mandate it was given. But as you know, for every reform measure, there are thousands of people working to find out ways to bypass the same and identify loopholes for the purpose. Often, we cannot match the ingenuity of such people who concentrate all their energies on finding such loopholes and matching the wits of regulators."*

Q. As Chairman of the Disinvestment Commission, you have been known to have been critical of the Government's use of the proceeds of disinvestment since most of the funds have been used for revenue expenditure without creating any long term assets or infrastructure. Do you feel we have missed the bus to promote infrastructure in the country in a big way?

In the very first report of the Disinvestment Commission, I made a pitch for putting up a Disinvestment Fund to create a pool of capital for providing assets to the country, especially the poorer sections of society, since the proceeds are from disposal of assets procured out of public funds. Secondly, this would ensure that the proceeds from sale of Public Sector units was properly accounted for and utilised for specific needs and not frittered away in non-Plan and revenue expenses. I used some illustrations giving an idea of what the Government could do e.g. more than a million houses could have been built for the rural and BPL citizens, the response from the Government was purely bureaucratic, mechanical and finance oriented. They did not see the point of my note and gave the typical response expected of an unthinking bureaucracy with the result that today we are none the wiser about where the huge amounts collected by sale of PSUS have been utilized. More importantly, we lost an excellent opportunity to build infrastructure that would have taken the country a few notches higher in development by now. I do not think it is possible to arrange for such scale of funds now… it is a bit too late to think on these lines.

Q. In the economic downturn, it seems the Public Sector has weathered the storm better than the private industry. Do you therefore, think the choice of public sector to hold the commanding heights of development, was right considering the neurotic response of the industry to cut down costs through job cuts and withdrawal of investments…?

From the beginning employment in the Public sector was for other than business reasons, some of which were only political and to meet job quotas for specific areas. The private sector has never had to contend with such issues and PSU jobs were basically created without reference to the ground situation vis a vis business needs. As a result surplus manpower was created over the years with job security as in Government provided to the employees. During times of fall in demand, when the existence of surplus manpower was often pointed out by us, such surplus manpower was utilized for other purposes such as expansion etc. there was really no linkages between output and jobs in the Public Sector and profit was not uppermost in the minds of the powers that be. This does not disprove the need for professional and market driven entities to be involved in the growth process, if anything it demonstrates the wastefulness of public funds through defective thinking out of such needs, leading to inefficiency in operations.

Q. Disinvestment has virtually been given the go by…

There is no political consensus on the way to go... we had brought out 12 reports and established the principles of disinvestment, to be initiated even outside India, but Government never made an attempt to consciously study the report and atleast, discuss and analyse it. Even when it did go through the process, valuation became a controversial subject. For instance, in the early 60s, whenever Government wanted to set up a PSU, it would seek resources from State Governments, chiefly, land for the unit. Invariably, if they needed 50 acres of land, they would seek 250 acres and State Governments would readily agree, with the

A life lived differently…

Over ten years ago, listening to an extremely high-ranking civil servant lament about persecution by the political establishment, I remarked, "GVR would not have taken this lying down". The official's candid response startled me. He said, "Had I lived my life like GVR, I wouldn't have taken it too".

That in a nutshell sums up why Two Score and Ten is a book worth reading. Because, it is about a life lived differently, about being unafraid of powerful politicians; about being shunted from one position to another and making an impact in each of them through intelligence, integrity and ingenuity. Two of Mr GV Ramakrishna's (GVR to many) most high profile posts were as chairman, Securities and Exchange Board of India (SEBI) and later, the Disinvestment Commission. In fact, both positions developed their high profiles because of the way GVR did his job.

The most riveting chapter of the book is GVR's 1985 stint as Petroleum Secretary, when he shepherded what was then one of the biggest infrastructure contracts in the country, the Rs 1,700 crore Hazira-Bijaipur-Jagdishpur pipeline project. The pipeline was to carry natural gas for the ONGC across 1,700 kilometers, from the fields of South Bassein. For those, who have followed the Bofors drama, the HBJ Pipeline project provides the first ever inside account of Ottavio Quattrochi's clout, and the power he wielded through his connection with Rajiv Gandhi's family.

Although the Spie Capag consortium won the pipeline bid in an open tender, the Rajiv coterie subjected it to the scrutiny of several committees, all the time trying to find ways to get Quottrochi and his Snam Progetti back into the project. GVR stuck to his guns and was careful to obtain legal opinions to back all his actions and not allow any slip up. The PMO's anger even caused an embarrassing last minute delay in the signing ceremony. Petroleum Minister, Mr. Naval Kishore Sharma was also shunted out.

GVR did manage to brave the wrath of the Prime Minister and ensure a clean deal, but there is a twist in the tale. The Spie Capag representative offered GVR a five per cent kickback - a massive Rs. 34 crore. A stunned GVR called in his Financial Advisor and director and had the offer repeated to them. He then forced the Spie Capag representative to offer a Rs. 34 crore discount on the project cost "as a gesture of goodwill", without informing the Minister about the reason for this generosity.

The project was then completed on time, but under a hawk like scrutiny. Quottrochi's constant attempts to thwart the project continued, and by the time the Bijapur fertiliser plant was ready, GVR was so fed up of the project that he did not attend the inauguration.

Despite the unsavoury HBJ episode, GVR's personal experience of Rajiv Gandhi has a strangely poignant ending. In May 1991, just days before his assassination, Rajiv Gandhi sent for GVR. After a cordial chat, he asked if GVR's assistance would be available to him after the elections. He told his secretary Vincent George to give GVR priority on appointments and his direct personal number. A few days later, Rajiv was no more.

The book rushes through the first few chapters with an almost perfunctory narration of his early career, starting with his days as a biochemist with the Rockefeller Foundation doing research at the Bowring Hospital. One wishes that GVR had fleshed out in greater detail some of his earlier assignments, including his short stint as secretary, coal and later as Chief Secretary of Andhra Pradesh, personally chosen by the temperamental but charismatic NTR (N T Rama Rao). Although GVR was moved out of various posts owing to differences with his political bosses, he narrates each incident factually and without rancour.

The chapters on the SEBI and the Disinvestment Commission (DC) provide a rare inside account into the creation of the regulatory framework for building or dismantling institutions. GVR has always been credited with making SEBI roar, even when it was a toothless tiger.

A battle that he lost, was to make the Unit Trust of India more accountable, and everybody knows the price that investors paid for the bureaucratic folly. Finally, GVR was shunted out of SEBI and to the Planning Commission, not because of broker pressure, but because of a negative report on an Andhra Pradesh based company called Goldstar, which had dubious connections with the highest office in the country.

His experience in the Disinvestment Commission exposes the huge gap between Government rhetoric and implementation under the United Front Government. Many of the DC's most sensible recommendations remain valid even today.

http://www.financialexpress.com

result that the Units were saddled with huge land surpluses… and their value should have been factored into the value of the Company's assets during disinvestment… I have always argued that the value of unutilized resources should also be considered in the sale price since these carry tremendous market for the industry. The accounting part was also not done professionally since the private bidder who did the valuation and, he had a vicarious interest in down playing the profits and highlighting losses, so also the worth of assets for obvious reasons, and this worked to the detriment of the valuation process. By the time this was thought through, I had left the Commission, but it was essential to sensitise the people handling it, to this aspect of losing the value of our public money. I do not know if anything was done about this later… Since due diligence was carried out by the bidder, it was in his interest to lower the worth of the company to pay less for the asset… At least the Government should have set an 'upset' price for the company below which it would not sell the company but this did not happen.

Q. Re : The state of the Navaratnas… our best performing PSUs, today many of them are unable to compete with the big guns in the private sector and are not even able to get Government contracts, which is a sorry state of affairs. Is it a case of their being asked to win the race with their hands and feet tied?

The concept of Navratnas was initiated by the Disinvestment Commission. And recommended that greater autonomy should be given to them in their day to day functioning…. It is in the nature of Government functioning to not let go of any power or authority, for obvious reasons. ***And a business proposition cannot be expected to deliver best results when they are constrained by having to refer to New Delhi for every decision… Now I believe functional autonomy is given to them though more needs to be done, if they are to be truly professional.*** Unfortunately representation is not given to the private shareholder on the Boards of such companies even where we have diluted Government holding by 15-30% which does not help the efficient functioning of the unit because decision making is the crux of the profitability of any institution. Often the reason cited is that not many suitable Directors are available to be nominated to these Boards. It is possible to find good Directors from the list of shareholders of these companies; we must only have the will to act in favour of the company. The whole thing revolves around power, which the masters do not want to let go and lack the will to get things moving.

Q. You have been involved with economic ministries and have favoured joint sector projects rather than exclusive public sector projects…

My preference for private sector participation in major Government projects goes back to when I was Managing Director of the Andhra Pradesh Industrial Development Corpn. When the Government was considering putting up its projects, I told the Chief Minister, Dr N. Sanjeeva Reddy, that 100% investment by the State Govt. locks up costly capital in huge projects. Instead, if we could involve the private sector in investment, it would help in two ways: first it would reduce the capital outlay of the State by 50% releasing funds for other equally important and huge projects; since funds are not unlimited, and second, it would enable the professional expertise of the private sector to play an important part in the success of the project. He agreed, but was very doubtful about the Centre agreeing. I nevertheless put up a proposal for joint participation of the private and public sector in engineering projects which was first met with considerable skepticism, but on my insistence, was considered by Mr. S. Bhoothalingam, then Secretary Ministry of Finance, although initially he was doubtful about the workability of such a proposal. After Andhra, even Maharashtra put up requests, which was considered after Chief Minister VP Naik visited Hyderabad to see for himself the success of our schemes.

“

And a business proposition cannot be expected to deliver best results when they are constrained by having to refer to New Delhi for every decision… Now I believe functional autonomy is given to them though more needs to be done, if they are to be truly professional.

”

Q. Doleouts for failing companies has become common even in market driven economies like the U.S and Europe. Does this mean the capitalist, market driven system of economic growth is laid to rest and inefficiency and manipulation are at a premium?

I have been following this exercise of the developed countries with interest since last year. For the last 10 years the philosophy of regulation had taken a back seat. In the history of the US regulatory body SEC, the Board is entirely a political appointment - the composition by law is the majority party 4 and the minority 3, thus the power is vested with the majority party in power. Depending on the philosophy of the ruling party, the SEC took a liberal view of the irregularities in the US corporate world and looked the other way. This regulatory weakness was what provoked Enron, and Worldcom, AOL, etc. with funds being merrily misused, the shareholders cheated, and scams galore. When the bust came, the measures taken were too little too late, leading to the overall collapse of the economic system. For all the criticism of our system, we must acknowledge that our regulatory systems were far tighter and discouraged any loose play by the companies. For instance, take the banking system while the Basel I norms arrived at the Bank for International Settlements, (BIS) prescribed 8% capital assets adequacy ratio for Banks worldwide, we adopted a 10% CAR for Indian banks…which ensured the banks were well able to weather the financial crisis, which the sub-prime crisis almost wiped out the banking system everywhere else. ***A lax regulatory system only encourages foul play by unscrupulous business men, Government has to inevitably come to the rescue of the investors because it has a moral responsibility towards its citizens, if not for anything else. But the culprits need to be handed stiff punishment.*** This is not to say that the market driven business has been proved unsuitable for development. Greed and vested interests can play havoc on any system, if there is no control. There have been examples of some of our own Public Sector organisations falling prey to non-professional decision making. If anything, it highlights the need for stricter vigilance and greater control and supervision on the Boards, and encouragement of good decisions.

> "
>
> *by not being responsive to Clause 49, we will only throw the baby out with the bathwater. Recent events have shown the need for reasonable regulations even in the US where newspapers are asking for more regulation, not less, to protect the investor.*
>
> "

Q. We have formulated our own response to unethical practices with Clause 49 similar to Sarbanes Oxley norms in the US…

Unfortunately, the issue of independent Directors is also becoming a subject of debate.. only 57% of listed companies having complied with the appointment of IDs…

…the common plea is that not enough qualified Directors are available…

It is necessary to discuss and debate this and I am sure there are answers, with discussions to come to a consensual decision, ***but by not being responsive to Clause 49, we will only throw the baby out with the bathwater. Recent events have shown the need for reasonable regulations even in the US where newspapers are asking for more regulation, not less, to protect the investor.***

Regulation is a twin edged weapon, only reasonable and principled regulation can help whether in the United States or India or any country. All regulation is not bad, but a healthy regulatory set up is in the interest of the country. Regulation can be constructive and destructive, and in the final analysis only a well modulated system of regulation can ensure that the average investor, and the citizen is protected especially where public money is concerned. It depends on what our ultimate objective is.

….. or that making IDs accountable is fraught with anxieties …

If selection is proper, I believe it may lead to self-regulation rather than being imposed from the top. If the Independent Director is known for his honesty and is competent in his area, I do not see any reason why decisions should go wrong at all. Of course, bona fide decisions can also fall flat due to bona fide reasons, which can be recorded for posterity and in transparent terms, so that no room is created for doubts about the validity of such decisions. Ultimately, it is the intention that matters.

Q..Does corporate governance get strengthened by more regulation?

Sensible regulation alone helps corporate governance. Corporate Governance starts with the ethics of the organization, it is more self regulation, you do what is right not because somebody is looking over your shoulder but because you genuinely value the results of your act. Having said this, some measure of formal control and monitoring is required without which it will be a no-holds barred situation. What will really deliver value to the stakeholder is a sensible regulatory mechanism merged with deep concern and ethics in corporate performance.

For this I would hope that Corporate Governance should start from the basics, the family. If the child observes his parents being uncompromisingly honest at all times, and following the rule of law and good conscience, he will surely grow into a responsible and caring corporate performer. On the other hand, if he has grown up seeing his parents flagrantly flout norms and laws with contempt to gain immediate advantage, financial or otherwise, he is going to become another fraudster; and add to this a weak regulatory system you get the recipe for investor disaster.

> "...*it would be my tenure as Chairman, SEBI. I could start the National Stock Exchange which has today grown to be a national organization of repute and has become a representative of the small investor in many ways. Also, because it was a period in my career where I got the complete freedom to introduce policy measures which I thought appropriate and the then Finance Minister Dr Manmohan Singh gave me complete authority for the purpose.*"

Q. How would you rate the regulatory mechanism in our country in the financial system be it in the Banking, Insurance or NBFC sector?

On the whole I would say it has been good. But, as I have stated earlier, the regulatory system cannot be static... because for every new norm you bring in, there are hundreds in the business of finding out loopholes to take advantage of...hence regulation also has to keep pace with changing times, and accordingly tighten or loosen the norms depending upon the level of transparency sought and available. To give you an example, just a few years ago a Non Banking Finance Company had collected huge sums of money from unsuspecting investors on the promise of high returns and then just vanished into thin air... There was no regulation or monitoring of such institutions either by SEBI, or RBI or any other agency, with the result that the poor investor was the sufferer. An unregulated environment is certainly not in the interest of the country.

Q. Bureaucrat, Diplomat, Regulator, Policy Administrator, Advisor you have donned many hats in the Government over the last 50 years or so.... and have contributed immensely in each of your appointments... But to you, which of your postings has been most satisfying in terms of performance and contribution to national good?

To me, it would be my tenure as Chairman, SEBI. For the reason that I could start the National Stock Exchange which has today grown to be a national organization of repute and has become a representative of the small investor in many ways. Also, because it was a period in my career where I got the complete freedom to introduce policy measures which I thought appropriate and the then Finance Minister Dr Manmohan Singh gave me complete authority for the purpose. Although it took over a year to get the legislation through after perusal by the Law Ministry etc. and when it finally took shape in 1992, I barely had one year left in my tenure but I am extremely satisfied at the work that has been done by NSE in the area of investor service.

Q. Your career has been marked by a strange mix of conformity with the system and defiance of the same as you have been known to fight it when its ways did not fit into your principles... In a unique example of taking on the system from within, and winning each time, without losing the respect of either your peers or the powers that be in any way. Evidence if any of this, is your being asked to work for four prime Ministers after your retirement and delivering at each of these postings...

I believe you must be clear in your principles and approach and act according to your conscience and results will follow. Added to this, was what we call luck. There were times when my friends would tell me I cannot survive in the environment, that my days were numbered that I would have to retire prematurely. But I not only retired on superannuation at 58 but also carried on for a further 12 years. There were a lot of others like me, but probably they did not have the opportunities or the luck to help them along in their way. I do not think any special credit should be given to me for this.

Q. It is understandable when luck plays a part in a one-off instance, but during the entire career spanning over 50 years , it is quite modest of you to say so, but I would like to believe that the way you bring to bear your personality on the job on hand might have had a bearing on the judgements of the powers that be!

(Smiles)

Q.Any particular instance when you wanted to just give up because the system was not being responsive enough to your suggestions….

> “*I never wanted to give up at any time…but there were many instances where my colleagues advised me not to rub the authorities the wrong way; but I was always prepared for the worst. If I had to leave, so be it, but I could not compromise on my basic principles and knowingly dilute my belief in moral behavior.*”

I never wanted to give up at any time…but there were many instances where my colleagues advised me not to rub the authorities the wrong way; but I was always prepared for the worst. If I had to leave, so be it, but I could not compromise on my basic principles and knowingly dilute my belief in moral behavior. There was this instance of the HBJ pipeline contract, which virtually brought me to the brink and my friends had almost written me off because very big people were involved in it. Seeing that I was in no mood to compromise on principles the deal went through as recommended by me. In many cases I was shifted to the doghouse to make way for more pliable public servants… Sometimes I have been shifted to a position even without an office and made to work in a room without even an air cooler in the hot summer in New Delhi.. But I had weathered all this with a smile because I sincerely believe that you need to get good sleep at the end of the day, which was not possible with a conscience that was burdened with pliability. The lesson is that in Government you can never take anything for granted.

Q. Are you spiritual or religious by nature?

I am spiritual and religious but not bigoted. I am more a realist, who believes in the strength of your values.

Q. What about your leisure time activity?

I read, listen to music, and attend spiritual discourses, that is why I settled here in Chennai, although I belong to Bangalore. I do not like to travel much which I undertake once in six months for CIDC events.

“The three-martini lunch is the epitome of American efficiency. Where else can you get an earful, a bellyful and a snootful at the same time?”

– Gerald R. Ford

CORPORATE GOVERNANCE P. G. Vijairaghavan

"Ever since its inception, Satyam has been at the forefront , introducing cutting edge tools in software, and taking TRUST to all the business capitals of the world making the conduct of business simpler, and reliable…Our ADHERENCE to corporate governance measures is reflected in the mounting profits of the company and the recognition by the world of our dedication to the time tested values of HONESTY, COMMITMENT TO THE CUSTOMER AND TRANSPARENCY in our dealings, through this Award. I thank the World Council for Corporate Governance for identifying the jewel in the crown of international business, and assure all that Satyam will grow in stature from here through our conduct of not only business, but in adherence to our now internationally acknowledged conduct of corporate governance….!'

This is not what Ramalinga Raju, the discredited MD of Satyam, spoke at the Award Ceremony on that star spangled night in London in September 2008 but an artist's conception of what he might have liked to say if only he had been there; unfortunately the world missed a wonderful acceptance speech that would have gone down in history as perhaps the most unabashed exhibition of hypocricy, lies and damned lies shrouding a mass of nefarious acts in glib talk.

Satyam was named the winner, barely four months before Ramalinga Raju broke into the scene with his confession of the fraud he and his cohorts committed on Satyam and on the corporate world. The World Council for Corporate Governance (WCFCG), with Dr. Ola Ullsten, the former Prime Minister of Sweden, serving as lead judge hosts the award we hear, has not stopped kicking itself for its choice of Awardee this year. Obviously, this is a coveted recognition among the corporates and Ramalinga Raju would have understandably been proud that his brand of corporate governance at Satyam(!) was being recognized by the international community! It would be interesting to find out if the bulk of the fudging of the account books at Satyam happened after Satyam was bestowed this award! If so, it will evidence that Raju was indeed motivated by the appreciation by the world body of his tremendous ability to ride the profit wave, notwithstanding, if, by just making a few minor changes in the books of Satyam!! Of course, Raju was not present at the function, busy as he must have been in doing better things and we are unable to recount his acceptance speech at the function. However, "This honor demonstrates the value Satyam places on corporate governance, and on the importance of serving the interests of our investors, clients, associates and of society,' spoken by Jayaraman, Global Head of Corporate Security and Company Secretary at Satyam(ANI) amply reflects the smugness of the Chairman, if anything.

While most of us curse Satyam for the unenviable and embarrassing position in which India Inc has been landed, what with every and anyone interested in doing business with India looking it a shade longer in the eye before signing the agreement/ order…one must recognize that it has, willy nilly, done some good to the business community.

For one thing, it has brought corporate governance on to the front pages of newspapers, thereby ensuring that companies spend that much more time in putting in place practices and procedures that might strengthen and establish their credentials as being stakeholder friendly. Also, Government has been alerted that corporate fraud is not something that happens only in the US. But the truth is there are Enrons and Worldcoms in big or small measure, happening all over the world even as we write this, and every one is innocent till proven guilty, that privatization is not license to fudge books or take the stakeholders for a ride into oblivion is one important takeaway of this episode. Satyam has proved in India, as has the fall of Lehman Brothers and JP Morgan in the US, that a capitalist, market related set up cannot afford to do away with or dilute regulatory mechanisms and however much we may want to trust companies with others' moneys, because man will continue to be human, bodies such as SEC and SEBI, RBI and Revenue authorities etc will need to be around inspite of their trademark unpopularity.

What however needs to be seriously debated is whether Fraud on the stakeholder is an aberration on Corporate Governance at all? Or is it something far more serious than merely failing to live up to the needs of disclosure and transparency in business?

Essentially though the question that begs an answer is : Is it possible for Government to ensure corporate governance through the statute book? Is it so difficult to overcome or ignore the law book, especially in a country like India where there are laws on virtually everything, and implementation of nothing; basically because corruption has taken such unbending roots here. More importantly, by classifying Fraud as just a violation of corporate governance, are we trivializing the offence which strikes at the roots of our trust and confidence in a business because of the presence of one single overbearing factor that of criminal intent? A criminal will function and work his way, with or without corporate governance laws. Much as thieves, crooks and murderers do despite the existence of supposedly stiff laws, even the death penalty, ensuring law and order in organized society.

Many ideologically inclined love to believe that the Satyam fraud is a manifestation of the ills of a market driven, rogue capitalist society, that does not suit a country like India. If so, how do we explain the Dalmia and Haridas Mundhra frauds in the early years of socialist India's independence, although the present one is by far the biggest fraud unearthed (or confessed to) so far!!

Much as India is a spiritually inclined country, there seems no alternative to a semblance of Corporate Governance norms since there is yet no way the fickle and weak human mind can be made to control temptation to make some quick, if dirty lucre; and the only way it can be ensured is through complete disclosure, and transparency in dealings which must be open to scrutiny, and accountability of individuals taking decisions. And in this, the role of the Independent Director has come in for some really micro inspection-- from whether the ID is a necessity at all, since they have not been seen to be delivering anything other than what the owners have wanted and how those among them who show true independence in questioning faulty strategies and even more questionable financial decisions need to be protected by law.

With a view to understand Corporate Governance as it should be, Tapasya spoke to some of the best practitioners and regulators to contribute to this special issue. The list of authors is truly illustrious from the most respected regulator, to Trade Body head, to Corporate CEOs and practicing experts in CG, all have made this issue a special one in more senses than one.

"Secrecy is the enemy of efficiency, but don't let anyone know it."

– **Ric Ocasek**

The Fundamentals of Corporate Governance

Insights from Satyam

Sudhakar Ram,
Chairman & Managing Director
Mastek Ltd.

Mr. Ram is a silver medalist from Indian Institute of Management (IIM), Calcutta. Before joining Mastek, he was the CIO of Rediffusion Dentsu Young & Rubicam. He is at the helm of several initiatives in technology, applications, processes, customer deliveries and business development. As Chairman and MD, Mastek, Mr. Ram has been the catapulting force in identifying the "Third Wave" opportunity for the Indian IT industry and in leveraging Mastek's strength as an IT solutions company. He also led the repositioning of Mastek, focusing on a few chosen verticals like 'Insurance' and 'Government'. Mr. Ram has also bagged the CNBC Asia's India Business Leader Award 2007 title for excellence in leadership.

The Satyam issue is a good opportunity to harvest rich insights into the fundamentals of corporate governance. In discussions on governance, one question that doesn't normally get the attention it merits is: on whose behalf is the company governed? Whose company is it, really?

The top-of-the-mind response is that a company is governed on behalf of the shareholders.

The course of events at Satyam throws up enough doubts about this answer. First, there has been such a massive dumping of shares and change of ownership, that only a small percentage of those who held Satyam shares in November are shareholders today. Second, it would be incorrect to think that the Government appointed an independent board only to protect the interests of shareholders, most of whom have bought shares relatively recently at a throw-away price. Among the various stakeholders of any company, the shareholders tend to be the least loyal selling their holdings at the first sign of trouble. It would be more appropriate to view shareholders as suppliers of money and liquidity rather than as owners. It is clear, therefore, that the company is not governed only for the benefit of the shareholders.

Is the company then governed on behalf of the employees? Protecting the jobs and interests of the 53,000 employees at Satyam was clearly one driver for the quick Government intervention. However, providing employment cannot be the primary purpose of any organization. As an example, suppose half of Satyam's customers decide to cancel their contracts, will the Satyam Board still continue employing all the staff? So the company is not governed on behalf of its employees.

How about the customers? Satyam has an impressive roster of international customers. The need to continue servicing large international clients as well as protect India's IT reputation must have played a role in the Government's decision to act fast. Just as with employees, it is possible to build a case that a company does not exist purely for the benefit of the customers.

Whose company is it then? One view that has taken root of late is the concept of a stakeholder a term encompassing the shareholders, customers, employees, suppliers and the society at large. It could be argued that the company is governed on behalf of all stakeholders. While this idea holds some appeal, it fails on two counts. First, what happens if the interests of various stakeholders are in conflict? Second, there is a constant churn of shareholders, employees, customers and suppliers. The nature of the company's business constantly changes requiring new employees as well as servicing new customers. When the composition of stakeholders is constantly evolving, how do the 'governors' actually decide the best interest of each of these stakeholders?

The only idea that appeals to me is that the company does not really belong to anyone.

You govern the company for the company's own benefit. This is justified based on a pure statutory position that the company is a distinct legal entity, independent of any shareholder or any other stakeholder (a principle established by the House of Lords in the famous case of Solomon vs. Solomon & Company in 1897).

> *"While in the short run, benevolent and visionary dictators may help a country progress, dictatorships are almost always against the general public interest in the long run."*

Arie de Geus in his book 'The Living Company' takes this idea further. He is of the view that the only powerful way of looking at a company is as a 'living organism', an organism with its own destiny much the same as any living person. The role of governance, then, is one of stewarding the company to achieve its full potential. This is quite similar to a parent guiding and shaping his or her children to be the best they can be in their chosen field of endeavor.

Borrowing these powerful ideas, the answer to the question 'Whose company is it anyway' is: no one. A company is a unique and distinct individual with its own DNA and destiny. The role of governance, according to me, is three-fold:

- Ensuring the long-term health and viability of the company
- Stewarding the company to fulfill its potential and to become as great as it can be
- Adherence to the highest standards of ethics, statutory compliance and social responsibility

Parallels between Corporate Governance and Governments

Governments, function effectively by distributing power. From the division of power between clergy, nobility and commoners in medieval Europe to the fundamental pillars of modern democracies the legislature, the executive and the judiciary -- societies have long recognized the veracity of the quote by Lord Acton: "Power tends to corrupt, and absolute power corrupts absolutely. Great men are almost always bad men." While in the short run, benevolent and visionary dictators may help a country progress, dictatorships are almost always against the general public interest in the long run.

Most evolved democracies distribute power between the legislature, the executive and the judiciary. Further, an independent press (the fourth estate) is critical to keep these institutions honest and functioning effectively. While this may impair speed and efficiency, it seems to be the most effective mechanism for running countries thus far.

So what are the parallels to corporate governance? In the case of Satyam, there was an undue concentration of power with the founders, disproportionate to their low shareholding. The board was far less independent than required. The core issue, clearly, is balance of power. While individual leadership is a key ingredient of success, visionary leaders know how to enroll a larger team, not just within the company but also in the form of independent board members and advisors, to distribute power and empower their companies to grow independent of themselves. They understand that institutions can be built only if they become more important than their leaders,.

How then do we achieve balance of power within a corporate context? I see a clear parallel between the pillars of government the legislature, executive and judiciary and their corporate equivalents for good governance.

The Legislature: The board of the company is, in effect, the legislature. The board's primary responsibility is to steward the company to achieve its full potential. While, in theory, the board is elected by the shareholders, its job goes beyond catering to only the shareholders. The board balances the needs of the shareholders, employees, customers, vendors and partners, and society at large. This is similar to our expectation of an elected representative, say the MP. While the MP may have been elected from a specific constituency and a specific party, his responsibility goes beyond those constituencies to the country as a whole. Just as the legislature makes laws to govern a country and its people, the board lays down policies that govern the way the company is run.

> *"The Governance Committee can play the role of an independent press by taking a proactive approach in seeking stakeholder feedback, facilitated by external agencies."*

The Executive: The management of the company is obviously the executive branch, similar in role and function to that arm of the government. Working under the broad policy, vision and direction of the board, the management team is accountable for meeting the mutually agreed upon goals and objectives, in line with the ethics and values of the company. While the legislature has a more broad-based structure ideal for policy making, the management team has to be more hierarchical and result-focused to ensure efficient execution. It is this separation that helps a company cater to the larger good while retaining execution disciplines.

The Judiciary: The role of the judiciary is to interpret the laws laid down by the legislature and apply them to specific disputes. Currently this function is discharged by the board itself on internal company issues, and by the regulatory bodies and the courts when they relate to the laws of the land. As an example, if the company has disputes relating to income taxes, the appellate authorities and the tribunals form the first level of judiciary, with the high courts and Supreme Court stepping in if the issues cannot be resolved. In my view, the judicial role of the board is not as well-developed and is often at the root of many corporate governance failures. One possible approach, which we have adopted at Mastek, is to strengthen the Corporate Governance committee and ensure that its charter includes a systematic review of company performance on all fronts across stakeholders. Given the size and complexities of today's corporations, it may even be worthwhile, under the relevant legislations, to turn over the judicial role of the board to another body the Judicial Board.

The Governance Committee can play the role of an independent press by taking a proactive approach in seeking stakeholder feedback, facilitated by external agencies. This goes beyond the Whistleblower policies envisaged by today's governance guidelines.

The Satyam episode has allowed us to look at the fundamental aspects of corporate governance in terms of on whose behalf the company is governed, and how we can distribute power to ensure the longevity and effectiveness of the institution. We have put these principles into practice at Mastek and have seen the benefits of doing so.

"To know that even one life has breathed easier because you have lived, that is to have succeeded."

– Ralph Waldo Emerson

Corporate Governance :
Pursuit of wealth, ethically !

G. V. Ramakrishna,
ex-Chairman, SEBI and Disinvestment Commission

Mr G. V. Ramakrishna, currently Chairman Emeritus, Construction Industry Development Council, is recognized as one of the best administrators in recent times not just for his highly efficient performance in all the critical areas of his posting, but for the level of commitment to the project on hand and his defiant refusal to compromise basic principles for expediency in service. Among the many appointments held by him were Secretary, Government of India, Member Planning Commission, Member, Prime Ministers's Economic Advisory Council. He had the distinction of being called to contribute in critical areas of Government policy formulation by four Prime Ministers after his retirement from the IAS! Ramakrishna achieved prominence in public life during his tenure as Chairman, SEBI when he introduced far reaching changes in the functioning of Stock Exchanges to eliminate grey areas in trading etc. He was Chairman, Disinvestment Commission from 1996-99. (Also see Tapasya Bears Fruit)

Evolution :

From early days, the economic well being of individuals is one of the main goals of human existence. This is articulated in the Hindu concept of the four Purusharthas, which start with Dharma and Artha.

While the pursuit of economic wealth is recognised as a legitimate objective, it is predicated upon the first objective namely Dharma. Earning and accumulation of wealth has therefore to be based on right conduct.

In modern economic terms, the concept of individual effort, earnings and accumulation of wealth was put forth by Adam Smith in the 18th Century as complex social formations based on division of labour, and the separation of capitalist and non-capitalist groups came to be recognised as an essential part of society.

As individuals began to feel the necessity of complementing each others' skills to maximize the benefits of common action, the original idea of owner-proprietor and owner-worker began to be more complex. Ownership and workers began to get separated and, capital and labour assumed individual significance of their own.

In the early years, owner-proprietors were the order of the day. When partnership began to emerge as a way of pooling financial resources, for acquiring capital goods, for improving productivity and efficiency. Towards the end of the 19th Century forming of stock companies with wider ownership became the order of the day. Complex laws were enacted not only to enable large numbers of investors to participate in capital formation and to maximize efficiency and productivity. The separation of ownership and management also came to be recognised as an essential part of corporate evolution. With increase in the number of investors in joint stock companies, there began to emerge the small investors who wanted to participate in capital formation but did not have the time or means to participate in the management of the company.

After the end of the Second World War the competition between the Communist and Capitalist economies competed with each other and soon it became clear that the capitalist system gave better returns to the people in terms of living standards, more goods with better choices for the consumers. However in terms of health care and education for all, the Communist system gave better results. Peoples' freedom was curtailed in the communist countries.

On the whole the capitalist system was considered superior. After the collapse of the Communist regimes and their replacement by a hybrid system socialist capitalism then former communist countries were actively and effectively competing with the capitalist world. They had a higher growth rate and their trade surpluses helped them to build huge foreign exchange reserves. The events of 1980 showed the ill effects of having an unbridled capitalist system which tempted a number of people, high and low to make a quick buck by joining the gambling game.

"One of the main planks of the capitalist system till recently, was a sense of rectitude in the market, particularly among the bankers, and a level of regulation which acted as check against excessive greed."

One of the main planks of the capitalist system till recently, was a sense of rectitude in the market, particularly among the bankers, and a level of regulation which acted as check against excessive greed. When this began to lose its intent and purpose the rot began to set in. Investment banks, commercial banks, companies began to tumble one after the other. The housing scam followed by cheating in other companies, by falsifying the accounts with the connivance of the top management, which led to a collapse of the system with some people making huge amounts at the expense of a large number of gullible and greedy individuals.

However, the savings of the small investors were placed in the hands of the management of Banks, who could leverage on their own resources with the large resources of a number of small investors. The need to protect the interest of small investors emerged as one of the objectives of State intervention and to protect the small investors from fraud and mismanagement.

Over two decades ago the Bank for International Settlements (BIS) laid down norms for ensuring solvency of banks by laying down the capital risk weighted asset ratio (CRAR) at 8 per cent in all banks of member countries. This was called the First Basel Accord. Currently in India, the banks have been asked to stay within the norm of 10%. However in the case of western banks there has been very lax regulation with the result that banks undertook huge risks without raising the level of their own capital. Moreover banks resorted to innovative and off-balance sheet financing. The Central banks of western countries have been over looking this aspect of regulation for the last several years, with mild reminders of "irrational exuberance". The securities regulation bodies also did not enforce their own rules for trading in stock exchanges. Mortgage financing was allowed to grow uncontrolled. All these acts of omission and commission have made their contributions to the financial crisis. The recent statement of the G20 leaders recognises that major failures in financial sectors and in the financial regulation and supervision were the fundamental causes of the crisis. The statement assures that they will take action to build a stronger, regulatory framework. It also recognises that regulators and supervisors must protect consumers and investors.

The good features of capitalism have been overtaken by rampant risk taking and endangering the financial viability of institutions and individuals. The free market of capitalism has been substituted by a free for all market of irresponsible capitalism. Another area in which regulators were at best silent spectators and at worst collaborators, is in the excessive remuneration and bonuses given to chief executives of failing institutions at the expense of the tax payer. In the early days this used to be called as a regime of robber barons.

A combination of all these factors has placed a heavy burden on several governments who have been compelled to raise taxes to support failing institutions and organisations.

It is only in the last 20 years that Corporate Governance as a concept of protecting the interest of the small investors and to prevent their oppression at the hands of the management came to attract attention. The large size of companies with huge amounts of savings of millions of small investors compelled the State to intervene by enacting various laws. However, historically it is seen that the attribute of every new law is a number of loop holes provided for wrong doing.

The Western industrialized nations witnessed the proliferation of multi national corporations with accumulation of capital around the world, with manufacturing facilities distributed in many countries and ownership of shares distributed among investors around the globe and market place for the sale of individual shares, spreading through numerous stock exchanges in several countries. New financial instruments proliferated with the introduction of derivatives, interest swaps, exchange rate etc. The field for risk taking was widened and with it grew opportunities for fraud of colossal proportions.

> "It essentially means that those in charge of the management of companies conduct the affairs of the company in an ethical manner in the interest of all the stake holders."

In this complicated setup many opportunities arose for defrauding gullible small investors. Complex financial systems provided opportunities for financial fraud where individuals enriched themselves at the cost of numerous small investors by falsifying accounts, and presenting a wrong picture of the financial wealth of the company to justify their existence and to attract more funds.

Corporate Governance is a recent term for an age old concept. It essentially means that those in charge of the management of companies conduct the affairs of the company in an ethical manner in the interest of all the stake holders.

If we had to trace the major significant events leading to reform in Corporate Governance over the last 20 years, one can begin with the case of Robert Maxwell, a media magnate who committed suicide in 1991 when the financial mismanagement and malfeasance of his media group came to light. The Government of the UK set up a committee under the Chairmanship of Adrian Cadbury, Chairman of the Cadbury (chocolate) group of companies to look into the financial aspects of Corporate Governance. The Cadbury Committee report which came out in 1992 laid down guidelines for ethical rules of financial management, independent directors, audit committees etc. It required a company management to disclose the correct financial picture of the company. This was followed by other committees like the Greenbury Committee (1995) dealing with directors remuneration, financial rewards for the management afforded by the Confederation of British Industry. Greenbury was Chairman of the retailer, Marks and Spencer.

In the US, similar action was taken by the US Congress passing the Sarbanes Oxley Act of 1996, which also laid down strict norms for financial transparency in the management of companies.

Inspite of all these measures for better regulation in the last 10 years, the number of cases of mismanagement, fraud and the selfish greed of the management have all been highlighted in a number of cases of companies, banks and other financial institutions, emptying the coffers of the companies by dishonest management causing loss to the numerous investors.

The main reason of this state of affairs could be attributed to lack of adequate enforcement of the laws. The collusion between political parties and regulatory bodies enable the wholesale cheating of small investors. Starting with the decades old method adopted in the Ponzi schemes by which deposits are accepted from gullible investors while promising very large returns. The earlier investors were given high returns by utilizing the deposits of subsequent investors. The methodology followed by Ponzi in the USA was followed a few decades later by Gopal Rao in Bangalore in 1946 and by Sanchaita in Calcutta in early 70s and the most recent example of the use of Ponzi methodology is seen in the fraud of Madoff in the USA, where billions of dollars of investors money was lost by those who fell for the stories of huge returns of 35-40% per year. Gopal Rao gave a return of 48% per year or 4% per month to investors out of fresh deposits for 2 years before he collapsed. In India, there are numerous instances of non-bank financial companies (NBFC) taking deposits from gullible small investors. The regulation of NBFCs was in no man's land between the SEBI and the Reserve Bank till 1995, when the regulation of NBFCs came under the jurisdiction of RBI.

The implementation of the Western equivalent of Corporate Governance regulation was formalized in Clause 49 of the Listing Agreement of Stock Exchange as laid down by SEBI. These covered the main areas of independent directors, auditors and audit committees. After the Satyam scandal, the several defects in the implementation of the scheme have now been highlighted and remedial action is being debated. It is reported that only 57% of the listed companies have complied with this clause. The main areas calling for change are dealt with below:

Independent Directors: Companies are required to have atleast three independent directors with qualification and experience in corporate affairs, finance and economics etc. were supposed to ensure that the operations of the company were transparent and interest of small investors is protected. By the very nature of the selection and appointment, independent directors could not be independent of the management. When such directors are selected by the managements, remunerated by the managements and given various perks and amenities by the management, they could not be expected to be really independent and impartial in overseeing the functioning of the company. An obvious solution should be on the following lines:

> “It has also been observed that auditors who have been found wanting in their diligence or honesty are not dealt with adequately.”

1. Management should not select the independent directors. A panel of about 500 independent directors should be prepared and kept by SEBI. Only those persons who have the ability, experience and the willingness to act as watchdogs to protect the interest small investors should be placed in the panel. From this panel, SEBI can nominate 3 independent directors or 50% of the Board on the Board of Directors of Companies having more than 2 or 3 Lakhs share holders. No person can be an independent director in more than 3 to 5 companies.

2. The independent directors of a company could be from the field of law, financial and relative fields.

3. The remuneration of the directors also should not be fixed by the management. Depending on the size of the company and on the market capitalization, three different slabs of monthly remuneration can be fixed with the largest companies paying Rs.5 Lakhs per director per year and lower amount for smaller companies. For the payment of the remuneration, a separate fund can be created by SEBI from contributions from the companies themselves. The names of independent directors and their remuneration will continue to be publicized in the annual accounts of the companies. Investors having complaints about the financial management can write to these directors. Greater resort should be had to the provisions of the Company Act and the Company Law Board (CLB).

Audit Committee: The Audit Committee of the company formed from the independent directors will at present meet without the presence of the CEO and may call the CFO for providing clarifications. The statutory auditors may also be called in to clarify matters by the audit committee. The management at present, selects the auditors, fixes remuneration and continues their appointment for an indefinite period. This system also requires review with the external auditors term be limited to 3 years and the rotation of auditors may be supervised by the SEBI or CLB.

It has also been observed that auditors who have been found wanting in their diligence or honesty are not dealt with adequately. The Institute of Chartered Accountants should have a large role in examining the role of auditors. If after a suitable enquiry, auditors are found lacking in the honesty and integrity should be debarred from acting as auditors to any other company for a period ranging from 5 to 15 years. In the US, large fines are levied on errant auditors without a prolonged enquiry. This practice should also be followed in India.

“All that is necessary for evil to triumph is for good men to do nothing.”

– **Edmund Burke**

The Board : Pivot Of The Corporate Governance Function

Dr P. T. Giridharan,
Joint Director & Secretary,
Committee on Corporate Governance,
The Institute of Chartered Accountants of India

An Associate Member of the Institute of Company Secretaries of India (ACS) and a Ph.D holder in Finance. Dr Giridharan has been with the ICAI since 1995 and is involved with a number of Committees of the ICAI e.g. Financial Markets and Investor Protection, Corporate Governance, Allied Laws Committee etc. He is also a regular contributor to various journals and a speaker at seminars and conferences on capital markets, corporate laws, corporate governance etc. and an accomplished Corporate trainer.

The corporate governance framework should ensure the strategic guidance of the company, the effective monitoring of management by the Board, and Board's accountability to the company and the shareholders.

Annotation (6) OECD Principles of Corporate Governance

The current global turmoil had made the economic conditions of the countries around the globe as one of the toughest. For the first time since the Great Depression of 1930s, corporate boards are struggling to find a way out of the tight economic situation. The stakeholders/millions of shareholders ranging from high networth entitites to the lowest have lost scathes of wealth where recovery will take more time; and more lessons have to be drawn from the market meltdown. The Board as the super structure of the company has a multi-faceted task in defining its roles and responsibilities on how it will handle the risk lying against it. The responsibilities of the Board are generally spelt out in various codes of corporate governance and by way of laws, listing requirements etc. These governance principles are prescribed in terms of having a prescribed code of conduct for its own conduct and for the senior management of the company. This code is required to be posted on the company's website and all of them have to take affirmation to the code of conduct on an annual basis. In order that the Board has and discharges its responsibilities in a manner conducive to the affairs of the corporate and its shareholders, there is a listing requirement that it shall have an optimum combination of executive and non-executive directors with not less than fifty per cent of the board comprising non-executive directors. At least one-third of board should comprise of independent directors and in case of an executive chairman, at least half of the board should comprise of independent directors. Since corporate governance is a process, it cannot be guaranteed that the Board of Directors will be responsible for their actions which have been done in good faith and bona fide business judgment. This is based on the premise that "Trust" is the major foundation upon which the corporate edifice is built and the Corporate Board as wealth creator has its moral responsibility to inform continually its actions and reasons towards the stakeholders and shareholders. However, if one takes a cursory look at the recent global corporate crisis in certain cases like AIG, Freddie Mac & Freddie Mae, Lehman Bros Inc etc, where the toughest regulations/regulators were there, it could be found that the Board overreached, remained silent in collusion with the internal management and no one in the Board raised voice of concern, caution and care for prevention of misdeeds. To add fuel to the crisis, the markets this time have beaten everybody - from a market guru, business magnate, intelligentsia to a lay investor and discounted all the fundamental and technical theories. This raises new issues about how far board is serious in the matters relating to corporate governance. Was the corporate governance merely on paper? What was the role of independent directors sitting on the Board? Were they willing participants or mere spectators to the goings on?

Independence A Distinct Membrane

An Effective Leader is one who is not only Clever but has to be Consistent

Peter F Drucker

It is often said that independence is a mind-set. That mind-set is a membrane which varies with individual behaviour as he straddles from the living room to the Board room. What constitutes being independent is often a question and depends upon varied circumstances. Is it independent being (in) dependent or being a dissident or opponent or voice raiser or agree to disagree? The independent director is a key player in corporate governance and more importantly he is the gate-keeper and conscience keeper of the corporate. There are several codes on Corporate Governance which describe the way the corporate should process, but that cannot guarantee any result. The responsibility of the Board took a sharper edge after the crisis of Enron and WorldCom. The Sarbanes-Oxley Act of 2002 prescribed some stringent ethical standards. The definition of "independent director" can be traced to the roots of NYSE and NASDAQ rather than SEC and SOX listing requirements. In the Indian context the principles of SOX are more or less followed and it stems from the listing requirements prescribed under Clause 49. Clause 49 of the listing requirements on Board constitution is two dimensional and the number of independent directors on the Board depends upon whether the Chairman is a executive or a non-executive director. It is a numbers game theory. The independence of a director on the Board is not dependent upon the number but on the member, irrespective of the strength of such directors on the Board. It is a mind set-up of an individual who shall happen to be on the Board not as a contestant or a dissident but as a responsible member the Board who enables it to think, rethink and apply its mind judiciously. But over the recent years, there is a clear concern that corporate governance is being disregarded on moral, ethical, social and investment principles and investors major concern is whether the wealth will be created or withered by the corporates.

"It is often said that independence is a mind-set. That mind-set is a membrane which varies with individual behaviour as he straddles from the living room to the Board room. What constitutes being independent is often a question and depends upon varied circumstances."

Interest in Independence is Disinterest

The interest of independent director in most of the laws talks about his disinterest by way of stake or relationship. There is conflict between the term 'independent director' and disinterested director. Though they overlap in the context of generality, they are not identical. An independent director by definition should be disinterested but that does not mean all disinterested directors are independent. Interest in being independent means in overall that he does not have any conflict of interest in the affairs of the company either by way of employment on his own or his family or is not a related party in transactions of the company etc. The overall Board's independence lies in the formation and constitution of committees such as audit committee, remuneration committee, nomination committee etc where independent directors are to be appointed. The individuality of such independent directors is based on his fiduciary capacity, loyalty and most important, the trust the stakeholders/shareholders behold on him. For example, the Securities Exchange Commission requires companies to make proxy statement on the following disclosures regarding director's independence.

- Which directors and director nominees are determined to be independent using exchange, listing standard or other definitions on independence;
- A description of transactions, relationships, and arrangements that the board considered in determining if the independence standards were met;

- Whether any audit, nominating or compensation committee members are not independent; and
- The process the compensation committee used for establishing executive and director compensation.

The SOX requires that independence should be considered from the related party transaction angle. The NYSE sets a $1,000,000 threshold for compensation that renders a director not independent. In the Indian context, there is difference in defining the term of independent director as per the proposed New Bill on Company Law (Companies Bill, 2008) and what is stated in the Clause 49 to the listing agreement. (See box)

Striving or Straining Independence

The laws are fraught with different formulas in defining independent directors. There can be many views and many more reviews. Defining independence can be different but how independent he should be cannot be defined by law, rather, it comes out of refinement and experience. It is an individual frame of mind with utmost care and thought that Board discharges its responsibilities keeping in view of maximizing shareholders wealth and for overall growth of the company.

Companies Bill, 2008

Independent director in relation to a company means a non-executive director of the company, other than a nominee director, -

a) Who, in the opinion of the Board, is a person of integrity and possesses relevant expertise and experience;

b) Who, neither himself nor any of his relatives-

(i) has or had any pecuniary relationship or transaction with the company, its holding, subsidiary or associate company,, or its promoters, or directors amounting to ten per cent, or more of its gross turnover or total income during the two immediately preceding financial years or during the current financial year;

(ii) holds or has held any senior management position, position of a key managerial personnel or is had been employee of the company in any of the three financial years immediately preceding the financial year in which he is proposed to be appointed;

(iii) is or has been an employee or a partner, in any of the three financial years immediately preceding the financial year in which he is proposed to be appointed, of

(A) a firm of auditors or company

secretaries in practice or cost auditors of the company or its holding, subsidiary or associate company; or

(B) any legal or a consulting firm that has or had any transaction with the company, its holding, subsidiary or associate company amounting to ten per cent, or more of the gross turnover of such firm;

(iv) holds together with is relatives two per cent, or more of the total voting power of the company; or

(v) is a Chief executive or director, by whatever name called, of any non-profit organization that receives twenty-five per cent, or more of its income from the company, any of its promoters, directors or its holding, subsidiary or associate company or that holds two per cent, or more of the total voting power of the company; or

c) who possesses such other qualifications as may be prescribed.

Explanation. For the purposes of this section,' nominee director' means a director nominated by any institution in pursuance of the provisions of any law for the time being in force, or of any agreement, or appointed by any Government, to represent its shareholding.

Clause 49 Listing Agreement

For the purpose of the sub-clause (ii), the expression 'independent director' shall mean a non-executive director of the company who:

(a) apart from receiving director's remuneration, does not have any material pecuniary relationships or transactions with the company, its promoters, its directors, its senior management or its holding company, its subsidiaries and associates which may affect independence of the director;

(b) is not related to promoters or persons occupying management positions at the board level or at one level below the board;

(c) has not been an executive of the company in the immediately preceding three financial years;

(d) is not a partner or an executive or was not partner or an executive during the preceding three years, of any of the following:

(i) the statutory audit firm or the internal audit firm that is associated with the company, and

(ii) the legal firm(s) and consulting firm(s) that have a material association with the company.

(e) is not a material supplier, service provider or customer or a lessor or lessee of the company, which may affect independence of the director; and

(f) is not a substantial shareholder of the company i.e. owning two percent or more of the block of voting shares.

(g) is not less than 21 years of age.

Explanation: For the purposes of the sub-clause (iii):

(a) Associate shall mean a company which is an “associate” as defined in Accounting Standard (AS) 23, “Accounting for Investments in Associates in Consolidated Financial Statements”, issued by the Institute of Chartered Accountants of India.

(b) “Senior management” shall mean personnel of the company who are members of its core management team excluding Board of Directors. Normally, this would comprise all members of management one level below the executive directors, including all functional heads.

(c) “Relative” shall mean “relative” as defined in section 2(41) and section 6 read with Schedule IA of the Companies Act, 1956.

(iv) Nominee directors appointed by an institution which has invested in or lent to the company shall be deemed to be independent directors.

Corporate Governance : An Organization DNA

Sujit Sircar,
Chief Financial Officer, iGATE Corporation

Mr. Sujit Sircar is the Chief Financial Officer for iGATE Corporation, a Nasdaq listed US Corporation. He is a Chartered Accountant and has extensive experience and exposure covering Corporate Finance, Treasury management, Domestic and International Taxation, Accounting and Business Laws.

He is an active sports person and loves adventure sports like trekking, mountain biking etc. He has also completed a couple of half-marathons last year and intends to complete a full one within a year's time.

As investors are dazed at the total losses from one of the worst financial crisis of the century,many will be wondering, how did the stalwarts of Wall Street/ Dalal Street mess up so badly? What went wrong with all the complicated financial models? Why did the Corporate Governance and Risk management strategy, which forms the DNA for any organization, not take the necessary corrective measures?

How did the CEO of Satyam, that had recently won an award for Corporate Governance, commit deliberate fraud spread over multiple years? In September 2008, Satyam Computer Services was awarded the coveted Golden Peacock Global Award for Excellence in Corporate Governance for 2008. In January 2009, Mr. Ramalinga Raju, CEO of Satyam was accused of deliberate fraud, misleading of shareholders and poor corporate governance. The Satyam saga has got everyone thinking about the adequacy or otherwise of "Corporate Governance", the independence and responsibility of Independent Directors and the Auditors.

What is Corporate Governance?

Corporate governance is the set of processes, customs, policies, laws, and institutions affecting the way a corporation is directed, administered or controlled. Corporate governance also includes the relationships among the many stakeholders involved and the goals for which the corporation is governed. The principal stakeholders are the shareholders/members, management, and the board of directors. Other stakeholders include employees, customers, creditors, regulators, and the community at large.

There has been renewed interest in the corporate governance practices of modern corporations since 2001, particularly due to the high-profile collapses of a number of large U.S. firms such as Enron Corporation, MCI Inc. (formerly WorldCom) and the fraudlent practices of senior management like Flextronics etc.,. In 2002, the U.S. federal Government passed the Sarbanes-Oxley (SOX) Act, intending to restore public confidence in corporate governance. Clause 49 has been amended and implemented in India for improving corporate governance.

Companies usually have a three level system of control to ensure corporate governance. At the top is the company's governance code, which is directed toward enforcing company policies, achieving company objectives, monitoring company performance, and ensuring adequate disclosure of the company's activities. At the other end is the reporting system regulated by regulatory bodies such as the SEC, the SEBI, etc which subject public companies to accounting and disclosure standards, and their auditors to audit, independence, ethical, and quality control standards. Linking the two, is the third level which is a company's system of internal control, which provides reasonable assurance on the effectiveness and efficiency of operations, the reliability of financial reporting, and compliance with applicable laws and regulations. Companies need a centralized program and an established system to measure and monitor internal controls' effectiveness and the alignment between corporate governance, internal control, and external reporting activities.

The rapidly growing stock market leading to pressure from stockholders for ever-increasing returns, and executives seeking to maximize stock performance based bonuses, certain boards of directors and audit committees failed to constrain "creative" accounting practices to keep up their earnings numbers.

> *"The rapidly growing stock market leading to pressure from stockholders for ever-increasing returns, and executives seeking to maximize stock performance based bonuses..."*

In this scenario, it becomes imperative for companies to implement effective controls for corporate governance. Some of the factors that can contribute in reducing the risk and thereby increasing the governance model in an organization are discussed below.

Strengthening internal control systems

A robust internal control system has now become an integral part of the risk management efforts of any organization. Internal control system is the effective integration of strategies, policies, plans, and efforts, in line with the stated business goals in the most efficient way.

The internal control system provides the most significant insurance for the organization against corporate misgovernance. This is achieved by a set of control measures to ensure that

a) the business activities are conducted with the objective of meeting organizational goals and within the boundaries of law,

b) the financial and other data are reported timely and accurately, and

c) The resources are safeguarded and used only for their intended purposes.

An effective internal control function also serves as a valuable strategic tool for leveraging corporate strengths and improving performance. Hence, it is important for the Board and management of companies, if they have not already done, to ensure that a robust internal control system is in place in their respective companies and to follow effective corporate governance practices.

The internal control system should also be evaluated periodically and updated, so that it continues to be effective in an ever changing and dynamic environment.

Establishing the Corporate Governance Guidelines

The business affairs of the company are performed under the direction of the Board of Directors. The board delegates to the management the responsibilities to run the day to day affairs of the company. The primary focus for Board of Directors is on policies and strategic directions. The board selects, advises and monitors the company management, so as to ensure companies business is conducted with growth and profitability. It is essential that board clearly lays down the corporate governance guidelines within the company with emphasis on code of conduct, expectations from each member in the organization including the board, roles and

“Though the introduction of Sarbanes-Oxley Act in US increased the cost of governance manifold, the Act also brought about a great awareness of the need to have vigorous internal controls.”

responsibilities of individual members etc.

A corporate governance structure is a working system for principled goal-setting, effective decision-making, and appropriate monitoring of compliance and performance. A good corporate governance structure can identify, expose, and prevent poor corporate governance, flawed internal controls, and fraudulent financial statements

Corporate governance guidelines should ensure that the primary goals of enhancing the value of a company through ethical behavior, espousing a policy of openness and fairness, and ensuring informed decision making throughout the company. Corporate governance norms can go a long way in preventing frauds and misappropriation of assets. It encourages positive entrepreneurial behaviour, while having appropriate checks and balances through its independent directors and right balance of power ensuring decisions are wisely made.

Role of Independent Directors

Among the many shortcomings of the Satyam episode, one element that has come into the limelight has been the role of independent directors who were supposed to safeguard the interests of all stakeholders. Independent directors should also (in addition to the management) be held responsible and accountable for board decisions and audit-related compliance practices.

Hence it is of utmost importance to ensure that composition of board should consist of independent directors who should take responsibilities to ensure compliance with Corporate Governance. Suggestions to improve accountability of independent Directors have been as varied as the following:

- a selection committee to choose independent directors,
- mandatory training, performance assessments, limit on directorships and compulsory attendance of Board meetings,
- CEO/Board chair segregation
- majority number of independent directors on the board

In India number of independent directors varies from one third to half, which is different in US, which requires majority independent directors in the Board. An Amendment to the regulations to change the composition in Indian context might be useful.

The Role of Auditors

The role of auditors is now in spotlight. Auditors in our country are not changed for years (and in some cases generations). Rotation of auditors might be a useful practice to bring in higher corporate governance. We can even look at changing audit heads of the same firm periodically.

The role of Internal Audit also forms an important element in the Corporate Governance structure. An effective internal audit department/team is an important tool in the hand of the Audit Committee of Board to establish that the internal control prescribed within the organization is working well and is as per the guidelines.

Statutory guidelines

Companies are now facing increasing levels of legal, regulatory, and economic reporting requirements. Though the introduction of Sarbanes-Oxley Act in US increased the cost of governance manifold, the Act also brought about a great awareness of the need to have vigorous internal controls. These legislations helped prevent errors and irregularities by detecting them in a timely manner, thereby promoting reliable and accurate accounting records.

The events starting from the Enron debacle of 2001 and leading upto Satyam fiasco have brought the issue of corporate governance to the limelight again. Board of directors and stakeholders are equally concerned about risks of corporate mis-governance, and concerns are also being raised around independence of auditors and quality of audits. We will, in all likelihood, see more statutory measures to regulate corporate governance in the wake of Satyam fiasco.

While the corporate governance framework in the country is seen at par with other developed markets, the same has to be implemented in 'letter as well as spirit'. While things have improved substantially over the last five years, experts believe that more needs to be done, which will further improve disclosure levels and make managements accountable.

More recently, SEBI, in an attempt to further enhance transparency in corporate corridors, had made it mandatory for promoters to announce their pledged shares for the public. Pledging of promoters shares has been commonplace in the history of corporate India and, as it was not earlier mandatory on them to disclose the amount of shares pledged, shareholders were left guessing. With the disclosure becoming mandatory, shareholders will have a better idea of the financial stability and ownership status of the companies.

However, statutory regulations may not be the only answer to ensure proper corporate governance practices, but it will surely be a strong trigger in the right direction. If these measures are backed by legislative intent bringing in punitive measures for misgovernance, it will be an effective deterrent. One constant issue in the enforcement of higher Corporate Governance in the Indian context is delays involved in enforcement of Indian corporate laws. The need is to enforce corporate laws in a transparent, swift and uniform fashion. Implementation of "what we have" might be the need of the hour, rather than increasing the scope.

> *"Hence, 'stakeholder beware' could be termed the equivalent of 'caveat emptor' or 'buyer beware' in the context of corporate governance."*

Role of the Employees

One of the factors for the success of a corporate governance program is to gain the belief and confidence of its employees. Employees implement the policies and conduct the day-to-day business activities of an organisation.

Therefore, it is in the best interest of an organization to treat its employees fairly and equitably. Companies should have policies and practices that provide employees with adequate compensation, commensurate with the industry in which and country where the organization operates and the job functions of the employees.

Companies must adopt the best employee communication practices. They should have good whistle-blower mechanisms for employees to alert management and the board about allegations of misconduct without fear of retribution. An honest and engaged work force can help in implementing and running the best-of-the-breed corporate governance practices.

Role of Stakeholder

Recent corporate accounting scandals and the resultant outcry for transparency and honesty in reporting have led to public demand for scrutiny and possible regulatory action. Increasingly, company officers and directors are under ethical and legal scrutiny. The accounting scandals not only came as a shock but also led to the discovery that questionable accounting practice was far more insidious and widespread than previously envisioned.

Hence, 'stakeholder beware' could be termed the equivalent of 'caveat emptor' or 'buyer beware' in the context of corporate governance. Stakeholders should seek an honest, open and ongoing dialogue from the companies.

Experts believe that it is the institutional investors who have the tools, bandwidth and clout to extract information and play an activist role in ensuring that managements don't go off-track. If institutional investors act collectively, they can demand the required changes at companies they have invested in. While independent directors can certainly play an important role in ensuring better risk management, demand for good governance by institutional shareholders is also a good driver towards higher governance standards. Establishing minority shareholders' groups can also be a positive step. Individual shareholders through these groups can

> *"A sound risk management policy encompassing every sphere of the organization is necessary to inculcate a behavior of professional responsibility, accountability and an environment of sound governance model in the organization."*

communicate with institutional shareholders for taking up their concerns with the company's management.

Additionally, shareholders should ensure that the composition of Board of Directors is a balanced mix of independent directors and management appointees. This would help keep a check on the internal processes of the company. With shareholder activism on the rise, the proactive role of institutional investors will also make the company management more accountable.

In today's rapidly changing business landscape, it is now necessary for accountants and companies to step away from the traditional approach that emphasized compliance with accounting principles, and to focus on the study and investigation of the traits underlying corporate behavior and management. A sound risk management policy encompassing every sphere of the organization is necessary to inculcate a behavior of professional responsibility, accountability and an environment of sound governance model in the organization.

Relying on a plunging share price to force change is the current paradigm. In the process, shareholders can see considerable wealth destroyed. External corporate takeovers are expensive. Even after much of the wealth has been destroyed, the takeover and transition back to profitability is also an expensive affair. Decisions taken by the management ethically and responsibly goes a long way in building the valuation and respect for an organization. So every necessary step needs to be taken by all the stakeholders in the organization, be it management, board of directors, employees, customers, regulators etc. so as to ensure that highest level of governance exists in the organization and that should form the backbone or culture for the organization. A well-balanced board of directors, responsible and accountable management, proactive shareholders and swift action against malpractices could restore market confidence.

Good Corporate Governance means creating an environment where information is transparent and where ethics is more important than wealth.

"We have a criminal jury system which is superior to any in the world; and its efficiency is only marred by the difficulty of finding twelve men every day who don't know anything and can't read."

– Mark Twain

Corporate Governance : More about values than implementing statutes

D. S. Rawat,
Secretary General, Associated Chambers of Commerce and Industry of India

Mr. D. S. Rawat, Secretary General, Associated Chambers of Commerce and Industry of India, is the CEO and is responsible and accountable for all the activities of the Chamber. Nationally acclaimed for his contribution in reviving the Associated Chambers of Commerce and Industry of India, the oldest national apex Chamber of Commerce in the country, ASSOCHAM was on the verge of closure when he assumed the charge, but within a year the organisation was back in the black and it once again became a force commanding respect and recognition. Mr. Rawat has traveled extensively both within and outside the country. He has supervised publication of a vast number of studies, periodicals, books etc.

Overview

Corporate governance is the system by which business corporations are directed and controlled. The corporate governance structure specifies the division of rights and responsibilities among different participants in the enterprise, such as, the board of directors, managers, shareholders and other stakeholders, and spells out the rules and procedures for making decisions on corporate affairs. It also specifies the process through which the company objectives are set, and the means of attaining those objectives and monitoring the performance. At the same time, it strives to ensure that the corporate structure functions in a way, which helps to maintain the corporation's reputation and discharge its responsibility towards various groups.

Good corporate governance is about commitment to certain values, and about ethical business conduct. It is about how an organization is managed for the good of all. This includes the constitution of the enterprise, its structure, its business culture, its policies and the manner in which it deals with various stakeholders. Therefore, transparency, timely and accurate disclosure of information regarding the financial situation, performance, ownership stakes and governance of the company etc. is an inseparable part of good corporate governance. This improves public understanding of the business operations and the policies of the organization. Consequently, the corporate body is able to attract more investors and enhance the trust and confidence of all stakeholders.

In brief, corporate governance calls for the following:

a) Transparency in decision-making and in execution.

b) Accountability, which follows from transparency because responsibilities could be fixed for acts of commission or omission.

c) The accountability is essential for safeguarding the interests of stakeholders and investors in the organization.

d) To utilize services of independent

auditors of repute and integrity.

Significant efforts to improve Corporate Governance worldwide gained momentum with a series of corporate scandals marked by reporting failures ever since ENRON saga. The importance of corporate governance has been highlighted by international agencies like OECD and the World Bank. It is widely believed that one of the main barriers to hamper the sustainable development of emerging or transition of economies is the lack of effective corporate governance. Over the last decade, financial firms and organizations including the World Bank Group, International Finance Corporation (IFC), and the Organization for Economic Cooperation and Development (OECD) have contributed special efforts to help authorities of emerging countries to improve their regulatory framework in corporate governance and transparency.

> "Though the governance regime and associated legislative frameworks vary from country to country, in this case, the Indian Government is re-examining its corporate governance framework..."

Corporate Governance and the Satyam Scandal

Corporate governance problems which have come to light in many countries, such as Enron, Worldcom, Global Crossing, Tyco, Polly Peck and Parmalat, have typically led to strengthening regulations and tightening of the supervisory framework, resulting in legislation such as the Sarbanes-Oxley Act. The recent Satyam scandal has shaken not only the corporate world but the entire Government system at the state and central level.

These incidents highlight lax market regulations. It could prompt investors to be more cautious on stock picks even as they battle with the fallout from the worst financial crisis in a generation. Though the governance regime and associated legislative frameworks vary from country to country, in this case, the Indian government is re-examining its corporate governance framework, and making changes to strengthen it, or at least to ensure that the existing frameworks are implemented thoroughly.

The scope and seriousness of the fraud in the Satyam episode has prompted the government to intervene so as to keep the company with 53,000 employees afloat, and to take measures for setting up a new board of directors after sacking the old one.

In India, while several mechanisms of governance have formally been in place for much longer than in most of the developing countries, the issue of proper governance has assumed relevance only recently because of their move into liberalized economy.

Both domestic as well as foreign investors are becoming more demanding in their approach towards the companies in which they have invested their funds. They seek information and they want to influence decision making process. Increasing integration with global markets calls for a correspondingly improved compliance with global practices in all spheres of corporate activity.

Steps required for better Corporate Governance in India

The current form of corporate governance implemented so far has provided us with valuable guidance and important lessons. Following are some of the important ways to improve the condition of corporate governance:

- Creation and optimisation of stakeholder value should be the objective of governance.
- Conformance and performance dimensions are both important to optimise stakeholder value.
- Good governance should be fully integrated into organisation.
- The Governing body should be properly constituted and structured to achieve an appropriate balance between performance and conformance.
- The Governing body should establish a set of fundamental values by which the organisation operates. All those participating in governance should embrace these fundamental values.

- The Governing body should fully understand the organisation's business model, its operating environment, and how the stakeholder value is created and optimised.
- The governing body should provide strategic direction and oversight in both conformance and performance dimensions.
- Effective and efficient enterprise risk management should form an integral part of an organisation's governance system.
- Resource utilisation should align with strategic direction.
- The governing body should periodically measure and evaluate the organisation's strategic direction and business operations, and follow up with appropriate actions to ensure desired progress and continued alignment with goals.
- The governing body should ensure that reasonable demands from stakeholders for information are met appropriately on a timely basis, and that the information provided is relevant, understandable and reliable

Conclusion

All corporate leaders today have a responsibility that goes beyond simply expounding on the particular trends in their particular industries. In the light of the recent episodes particularly the Satyam Scam, all corporate leaders have a unique responsibility to help restore faith in our financial systemwhich is, after all, the engine that helps drive much of the world economy.

In this atmosphere, the misdeeds of some have cast aspersion on all. After all, if a dozen companies either issued make-believe accounts or made-up earnings numbers, why should anyone believe that dozens of other companies aren't practicing the same deceptions? Whereas two years ago, news of impropriety may have taken months to percolate, in today's environment, it spreads out instantly. It's no wonder that public confidence in big business will be at the lowest point.

In the present scenario, some management teams seem to forget the fundamentals: fundamentals like management should manage the company, not manage the share price; fundamentals like management means balancing short-term returns with long-term investment; and that a CEO must think of a decade, not simply a quarter; fundamentals like real profit, real cash flow and real balance sheets matter; fundamentals like trust, integrity and responsibility matter.

The Independent Directors be chosen from a pool of qualified professionals who are known for their competence and integrity. Further, like the auditors, they should be chosen for a fixed tenure of three years after which they should be replaced by another set of independent directors from an identified pool of independent directors. The companies should be given a slate of eligible Independent Directors from the pool from which they can make right choice.

If India wants to ensure that a crisis of the same proportion never occurs again and if Indian companies want to be globally competitive in the new millennium, then good governance is the essential prerequisite for it.

"*If India wants to ensure that a crisis of the same proportion never occurs again and if Indian companies want to be globally competitive in the new millennium, then good governance is the essential prerequisite for it.*"

"The ultimate test of man's conscience may be his willingness to sacrifice something today for future generations whose words of thanks will not be heard."

– Gaylord Nelson

Independent Directors – Structural and Behavioural Impediments to Their Effectiveness

Y. R. K. Reddy,
Founder, Yaga Consulting Pvt. Ltd.

Prof. (Dr.) Y. R. K. Reddy is Founder, Yaga Consulting Pvt. Ltd., (1996) & Academy of Corporate Governance (2001); International Resource Person for Global Corporate Governance Forum - Washington, the World Bank Group, OECD, International Corporate Governance Network, AfDB, AsDB, ILO, Southern African Development Community, Eastern Caribbean Forum, and Government agencies. His work spans over 30 countries. A long standing Director on Boards, he has also been a featured Columnist for several years and a member of high-level committees of Commonwealth Secretariat, CACG New Zealand, Planning Commission, Central Vigilance Commission etc. Formerly ONGC Chair Professor of Strategic Management at Administrative Staff College of India for several years, his books have been published, among others, by Wiley Eastern, Vikas, Tata McGraw-Hill. He studied in India and the UK and was a Visiting Fellow at Friedrich Ebert Stiftung, Bonn and the London School of Economics.

Background and Developments: The value of Independent Directors (IDs) has been publicly acclaimed and privately questioned. They continue to slide down the reputation scale with every corporate scandal. While the idea of Non-Executive Directors (NEDs) has been around ever since the incorporation of a joint stock company with tradable shares about four centuries ago, the concept of an ID is relatively new. Some believe that it arose around the 1940s in the USA in respect of the mutual fund industry. In the UK, companies seem to have warmed up to the idea during the 1970s mainly to ward off the pressures for accommodating employee representatives and other NEDs as part of the recommendations of the Bullock Committee Report. Lately, the importance of IDs has been highlighted universally in the context of free markets and the increasing concern for good corporate governance mechanisms that would improve investors' confidence, develop financial markets and of course, to prevent corporate failure. Though it was an exceptional practice earlier, appointment of IDs has now become a normative standard for all listed companies including in India consequent to industry level codes as well as the Clause-49 of SEBIs listing agreement. The definition of IDs has been technically different from one country or a stock exchange to another (for instance SEBIs vs those of the Combined Code in the UK, NYSE, CalPers, ABI etc.).

The central idea, however, is to induct directors who are not connected with the company except for their directorial duties and the attendant compensation, and have not had any such pecuniary relationship for a period of time before assuming the director position and / or shall not be entering into such a relationship for a period of time after demitting the office (the norm varies between one year to five years from country to country). IDs are expected to bring-in the necessary objectivity to ensure that the power and control over the company are balanced and are not abused by the management or any dominant shareholder to the detriment of the other shareholders or to the company as a going concern or to the society at large.

Despite the strong rationale and unequivocal acceptance of IDs not only as another corporate governance mechanism but as an important institution around the world, the results relating to their effectiveness have been uncertain. There are three possible reasons for the doubts:

A) Case studies of failed companies indicate the presence of eminent IDs in sufficient numbers and with appropriate incentives who could not prevent corporate scandals, frauds and bankruptcy. None of them have as much as blown the whistle despite having an appropriate whistle-blower policy in place. If they were not complicit to the frauds, they were at least derelict in their duties belying the trust bestowed based on their enviable credentials. International case studies cited in this context relate, among others, to Enron, World com, Hollinger, Global crossing, Parmalat and in recent times, Satyam and the companies targeted for bailouts in the UK and the US.

> "*While non-performance and dereliction of duty among IDs has been apparent with the scandals, regrettably there have been no case studies or statistical evidence to show any notable path-breaking performance.*"

B) Research (for example in the USA and Australia) has revealed inconclusive correlation between corporate performance indicators and the numbers of IDs.

C) There has been some argument that NEDs (which includes IDs) may have indeed contributed to a negative correlation with corporate performance, and that the possible reason for such negative relationship is that some of the NEDs may have been representing specific stakeholders' constituency interests (such as environment, SMEs, agriculture, Government / regulatory bodies and the like) and may have exerted pressure to serve the sectional interest at the cost of corporate performance. While the last point may not necessarily be evidence against IDs as such, the issue is of the questionable effectiveness of the NEDs as a class.

Nevertheless, for want of any better alternative mechanism, IDs continue to be the biggest hope for the investors individual as well as institutional and the lenders. In the classical sense of Berle & Means who assumed progressively atomised ownership thus resulting in widely - held corporations, the IDs were meant to act as check against control passing into the hands of the management to the detriment of the shareholders who have inherent coordination problems and relatively high transactions costs. The IDs, acting as fiduciary on behalf of all the shareholders and in the best interest of the company, are expected to be a watchdog against managerial excesses. This, despite the question and apprehension expressed by Adam Smith that such directors in joint stock companies would never act with the same vigil as partners and that profligacy would prevail. The hope has been that IDs, being subject to the market discipline and incentives, would be compelled to perform their duties and fulfil the expectations ideally.

Theoretically, there are two main conditions for the IDs system to work well. First, appropriate incentives to draw-up good performance with inbuilt disincentives for poor performance as a director. Second, the existence of reputation risk - that directors would perform to the best of their abilities so as to maintain and enhance their reputation in the market place. The hope has been that non-performing directors will attract poor reputation and in the process, lose their market for directorships.

While non-performance and dereliction of duty among IDs has been apparent with the scandals, regrettably there have been no case studies or statistical evidence to show any notable path-breaking performance. This paper explores the structural and behavioural factors of control in corporations that seem to vitiate the ideal conditions required for this mechanism to succeed.

Structural Aspects of Control: Research has more or less concluded that the widely-held corporation with individual and free standing shareholders is more an exception than the rule. Such an arch type is mostly limited to the US and the UK. The role of the IDs has been conceptualised in the context of that assumption in functioning free markets. There are two aspects which seem to negate the assumption. First, the increasing role of institutional investors has consolidated the individual shareholders and their interests to a great extent and hence the extent of dispersed ownership is less than what is generally assumed. Second, most countries in continental Europe, Asia, and Latin America are marked by family block-ownership, pyramidal control structures, cross shareholding and super-voting rights. Thus, a study in Asia revealed that at 10% threshold level family controlled corporations account for 65% in Hong Kong; 69% in Indonesia; 68% in Korea; 58% in Malaysia; 42% in Philippines; 52% in Singapore; 66% in Taiwan China and 57% in Thailand. In the case of India, as of March 2006, 49.81% of equity ownership in BSE 200 index was reportedly held by promoters in operational control. 23 out of 30 Sensex companies reportedly are dominant shareholder managed. Studies also show that family control predominates in eleven continental European countries: Austria, Belgium, Finland, France, Germany, Italy, Norway, Portugal, Spain, Sweden and Switzerland. Further, top managers in 60% of such firms are reportedly family members.

> *"There appears to be a compelling need for family controlled businesses to not merely ensure a conducive public policy environment but also invent enough devices to ward off takeover bids or loss of control (even without resorting to the likes of poison pills)."*

In some countries, just a few big families appear to control significant portions of the economy and have had oligopolic grip in allocation of resources as well as over public policy. Where such control has been allowed to thrive, it has resulted in economic entrenchment that could, in due course, impede capital market development, resource efficiency and even innovation. Further, an important aspect of these control structures and economic entrenchment is that they give disproportionate controlling rights without commensurate investment and permit diversion of corporate resources within the pyramidal structures. In effect, they may have controlling rights up to 15 times of their investment (it is estimated that a family business typically leverages one billion dollars of investments into 15 billion dollars of control).

There appears to be a compelling need for family controlled businesses to not merely ensure a conducive public policy environment but also invent enough devices to ward off takeover bids or loss of control (even without resorting to the likes of poison pills). In this context, the preferred IDs will be those that are supportive of the family control as the primary objective than even appear to be acting against it. Thus, it is no wonder that the Higgs report suggested that more than 50% of IDs in the UK have been chosen by the CEO through personal contacts, friendships and other informal means and only four had any formal interviews. The situation is evidently even worse in the case of other countries with nominating committees mostly endorsing the suggestions of the controlling shareholder.

Most countries in continental Europe, Asia and Latin America also have significant presence of state-owned enterprises some of which are publicly listed. For instance, nearly 30% of market capitalisation in India's premier stock exchange is attributable to the 42 listed central non-banking public enterprises. The corporate governance challenges of state ownership are believed to be similar to family ownership. State being even more powerful than families, often indulges in political patronage, administrative interference, directed subsidies / administered prices, pursuit of social causes to the detriment of other shareholders and the company. Some countries have been making efforts at empowering the boards, appointing IDs on objective, fit and proper basis and segregating the ownership function from other functions of the State. Some of these corporate governance reforms in the State Owned Enterprises have been consequent to the efforts of the OECD since 1999 in this regard. Despite all these, the dominant situation at present is that IDs are not powerful enough to countervail ministerial directives and interests.

The above arguments have seemingly left out IDs in widely held companies and the prominent failures in the UK and the USA. It is obvious that the control in these failed companies had shifted to the managements as was hypothesised by Berle

& Means decades ago. IDs in these companies may have been "captured" or lulled into non-performance by the managements-in-control who obviously understand the behavioural dynamics of directors and Boards thoroughly. The more recent failings of the big widely-held corporations in the financial sector can also be traced to un-checked risk-appetite of the managements-in-control fuelled by bonuses on fictitious and unsustainable results neither of which were checked by the IDs.

Behavioural Dynamics: Given the control issues recognised in the above section, it is obvious that IDs will be chosen not merely for their credentials and reputation appeal for the markets but mostly for their compatibility with the control structures and cultures preferred by the dominant shareholder. It is thus no wonder that most companies do not have an advance competence profile of the board, and a process that matches candidates to meet the competence gaps at the board level. The choice of the ID often precedes the justification for the fit and is mostly orchestrated by the controlling interest. But even in the exceptional cases (where ownership has been significantly separated from management and competent IDs are chosen with explicit expectation of their performance, which in turn is subjected to formal evaluation and feedback) there are three main behavioural dynamics that seem to impede demonstrable competence from the IDs.

> "*The more recent failings of the big widely-held corporations in the financial sector can also be traced to un-checked risk-appetite of the managements-in-control fuelled by bonuses on fictitious and unsustainable results neither of which were checked by the IDs.*"

a. **Compensation:** The approach to directors' compensation has been more adhoc than structured and without certainty of its relationship with performance. There are three possible impediments that confound any efforts to perfect an individually appropriate package. First, all IDs are paid the same amount of compensation without differentiating one from the other on the basis of seniority, competence or market value broadly conforming to the principle of the same job meriting the same amount of compensation. The only differentials would be in respect of the sitting fee which varies with attendance and the fee for committee work. Second, the amounts do not vary on the basis of year-end performance evaluations and rating / grading. Variability, if at all, is achieved on the basis of shared commission which may be linked with profits. This implies that even if there is a variation, it would be year to year than among IDs themselves. Third, is the pressure for higher payment than deserved which could arise for the following reasons:

- There is a common social association between high compensation and high competence of the directors and hence the tendency of some notable companies to fix high compensations for IDs, which the latter will not refuse.
- Because of the common package system among IDs, the most demanding person would set the standard for the rest thus resulting in over-payment to the latter.
- If the controlling shareholder (or management) wishes to capture the IDs, there will be an effort to ensure that the compensation (both formal and informal, if any) is significant as a proportion of the income of the director from other sources. Consequently, the propensity to challenge management declines dramatically at the point where such an income crosses a threshold.

b. **Reputation Risk:** is considered an important factor of motivation for IDs to perform. This, indeed is on the assumption that their active participation in the board, balancing the interests of the minority shareholders vis a vis the dominant family (or managerial) control, balancing the shareholder interests with stakeholder concerns, challenging the assumptions, strategies and risk mitigation efforts of the management etc. would contribute to enhanced reputation.

> It is only the exceptional leaders in control of the company who would see the benefits of leveraging the IDs to elevate the overall quality of decisions and pursue goals that are optimal for the company as well as for the shareholders long-term interest.

And that the contrary would occur if they fail in fulfilling their duty of loyalty, care diligence and as fiduciaries. However, given the desire for hawkish control, good and objective performance by an ID may actually lead to a bad reputation as being unthinking, impractical, insensitive, dysfunctional, troublesome, disloyal or untrustworthy often caricatured as "unhinged", a "bull in china shop" or a "loose cannon". The situation would only be different in those exceptional companies in which the dominant leader (Chairman or CEO) actually accepts the pitfalls of bounded rationality and his/her own limitations of knowledge and skill - and wishes to leverage on the IDs to elevate strategic thinking and the quality of decisions in gaining competitive advantage and mitigating risks. In such cases, the company would have actually selected IDs after a careful analysis of competence gaps in the board and in the belief that "outside-in" thinking would lead to faster growth, robustness, mitigation of risks and long term sustainability.

c. **Consensus:** has been an important goal for boards. Most board cultures, especially in Asia, do not easily accept divergence of thinking, challenging of assumptions and fighting "group-think". Thus, it is no wonder that board resolutions, especially in family controlled companies, are almost always unanimous and without any differing perspectives, leave alone dissenting views or voting, as such. Behavioural scientists had observed that it is human nature to be subservient by reflex, if people perceive that someone in the group has legitimate authority. Thus, a CEO or a Chairman who owns substantial shares would tower as a legitimate authority evoking responses of subservience. It is the ideal leader who may try to encourage the IDs to challenge his / her thinking and assumptions. Such a leader would view IDs as useful "dissenting peers" to fight the natural inclination of subservience. The ideal leader may also encourage separation of the CEO and the Chairman to invoke an "alternative authority figure" so as to check misplaced loyalty. In many experiments, it has been revealed that active participation by one dissenting peer would actually increase the quality of Board debate. Perhaps the idea of the "lead / senior" ID suggested by the Higgs report and pursued notably in countries like the UK and Australia is mainly to break the spell of subservience often invoked by control-freaks.

Conclusion: The institution of IDs and its effectiveness in preventing corporate failures is indeed doubtful. There are several structural and behavioural conditions that thwart the effectiveness of this important internal corporate governance mechanism the dominance of family control businesses and SOEs in many countries, un-checked managerial power in some widely held corporations and the behavioural dynamics associated with compensation, reputation and the fetish for consensus. However, there is no alternative at all to this mechanism as a countervailing force against undue tilt of control. It is only the exceptional leaders in control of the company who would see the benefits of leveraging the IDs to elevate the overall quality of decisions and pursue goals that are optimal for the company as well as for the shareholders long-term interest. In other cases where there is no demonstrable effort to encourage "dissenting peers" and "alternative authority" figures to break the domineering conditions for group-think, non performance and subservience, the IDs may indeed serve as a cover for poor corporate governance practice.

References :

1. Berle, Adolph A and Gardiner C. Means, (1932), The Modern Corporation and Private Property, New York: The McMillan Company.

2. Claessens, Stijn et al (2000) "The Separation of Ownership and Control in East Asian Corporations" Journal of Financial Economics, 58: 1-2, pp81-p12.
3. Claessens, Stijn et al (2002) "Disentangling the Incentive and Entrenchment Effects at Large Shareholdings" Journal of Finance, 57:6 pp274 277.
4. Faccio, Mara and Larry H.P. Lang (2002) "The Ultimate Ownership in Western European Corporations" Journal of Financial Economics 65:3, pp365-395.
5. Higgs, Derek (2003) "Review of the Role and Effectiveness of NEDs, Department of Trade and Industry in UK".
6. Jensen, Michael and William H. Meckling (1976) "Theory of the Firm: Managerial Behaviour, Agency Costs and Development Structure" Journal of Financial Economics 3:4, pp305-60.
7. Morck, Randall (2004) "Behavioural Finance in Corporate Governance IDs and Non-Executive Chairs" Harvard Institute of Economic Research, Discussion Paper No.2037.
8. Morck, Randall, Daniel Wolfenzon, Bernard Yeung (2004), "Corporate Governance, Economic Entrenchment and Growth" NBER, Cambridge, MA, Working paper 10692
9. Reddy, Y.R.K. (2005) "Real Board Independence is Elusive" Financial Express Column, 5th February 2005.
10. Reddy, Y.R.K. (2005) "Do Outside Directors Destroy Value?" Financial Express Column, 23rd July 2005.

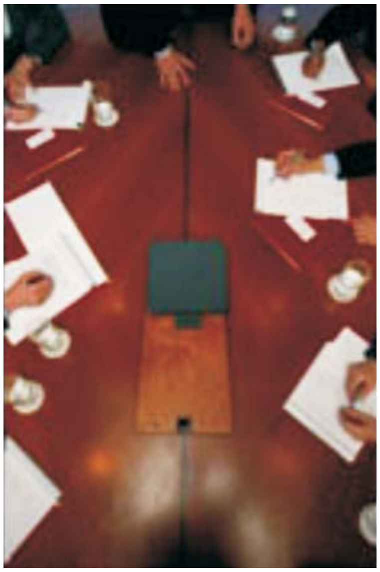
Reddy Y.R.K. (2006) Report on Workshop on Developments, Structures, Capacity and Roadmap for Enhancing Corporate Governance Standards in Commonwealth Countries in Asia, Commonwealth Secretariat.

"Determine never to be idle. No person will have occasion to complain of the want of time, who never loses any. It is wonderful how much may be done, if we are always doing."

– Thomas Jefferson

Corporate Governance in India : Clause 49 and global standards

Knowledge@Wharton



This interview with the professors at Wharton's Management Dept. was published by Knowledge@Wharton over two years ago at a time when corporate governance had not become such a hot topic of discussion in India's business circles. But the Satyam episode has ensured that CG occupies centrestage and gives it a new purpose in ensuring investor confidence in the corporate world. With its relevance never in doubt, we publish this two part interview with Jitendra Singh and Mike Useem.

In recent years, more and more Indian companies have been raising capital overseas by getting themselves listed on international stock exchanges. These efforts have been accompanied by the Indian Government's drive to attract more foreign direct investment (FDI). Both factors have gone hand in hand with the realization that if Indian companies want more access to global capital markets, they will need to make their operations and financial results more transparent. In other words, they will need to improve their standards of corporate governance.

The Securities and Exchange Board of India, or SEBI, which regulates India's stock markets, took a major step in this direction a year ago. It asked Indian firms above a certain size to implement Clause 49, a regulation that strengthens the role of independent directors serving on corporate boards. Have these steps made a difference to corporate governance in Indian firms? In the first of a two-part interview, India Knowledge@Wharton spoke about these issues with professors Jitendra Singh and Mike Useem of Wharton's Management Department who, with their colleague Harbir Singh, are putting together an Executive Education program in Mumbai on Corporate Governance in India.

Knowledge@Wharton : A year ago, the Securities and Exchange Board of India began to enforce Clause 49, a regulation that calls for an increase in the number of independent directors serving on the boards of large Indian companies. Recent media reports suggest, however, that though a year has gone by, some 60% of Indian firms have not yet complied with Clause 49. What do you think is going on?

Singh : I am surprised to hear that the number is as low as 60%. When Mike [Useem] and I and Harbir [Singh] were in Mumbai last year, running the last offering of our corporate governance program, one of the concerns we had was how quickly Indian firms would become 100% compliant. It was clear it would take some time.

A couple of issues come to mind. One is factual. The other is my informed speculation. One of the difficulties is there is a finite supply of independent directors. This is a position of great influence; you want people in these roles who will clearly shape the governance of your company. You want people in these roles whom you really trust, who have the right kind of professional qualifications, so naturally you need to be somewhat cautious and thoughtful about whom you bring into the boardroom.

While the numbers that are being bandied around that are quite large, my understanding after talking with various people is, in fact, that the numbers of the right kind of independent directors are not that huge. One might think that leading Indian firms might look to places like the U.S., where in fact, the numbers are significantly larger in terms of supply. Of course, there are all kinds of barriers – India is far away, and as I understand, by Indian regulations, attending by video conference is not counted as board member attendance. Otherwise you will see a lot more Americans – perhaps even people like Mike and Harbir and me – coming on to these boards.

> “Companies have to go through quite significant changes, and my own forecast would be that within some reasonable time, companies in India are going to have to be 100% compliant.”

The other subtler thing – and this is partly speculative – is that I suspect it has something to do with just a process of cultural change. There may be some degree of hesitation among companies, as this could mean a certain amount of loss of control – whether it is perceived or real is another matter. I don't know how true this is, but I suspect it might be going on.

Useem : After the U.S. passed its own version of Clause 49 – or in essence the predecessor of Clause 49 that is the Sarbanes-Oxley Act of 2002 – it has required major changes in how companies are governed and how their auditing functions. That set of regulations, and the regulations put forward by the New York Stock Exchange in 2003, among other things, have required that the audit, compensation and governance committees of our (U.S.) boards of directors be composed entirely of independent directors.

I have been watching U.S. firms come into compliance with the Sarbanes-Oxley Act and the New York Stock Exchange regulations of 2003; it just takes time. Companies have to go through quite significant changes, and my own forecast would be that within some reasonable time, companies in India are going to have to be 100% compliant. Not only are they required to do that, but they should do that, since ample evidence from certainly the U.S. and Europe does reconfirm again and again that the presence of non-executive, independent directors on a board of directors does have an affirmative effect on company performance, especially if a company gets into a bit of trouble, and especially if there is a crisis. Hopefully within a year 100% (of Indian companies) will be compliant (with Clause 49). That's going to be a good thing for investors as well as the companies in question.

Singh : I want to endorse what Mike said. Clause 49 is very much aligned with what Sarbanes-Oxley says, but in fact borrows from other regulatory traditions as well. I underscore the point, though, that the evidence that is very clear that Sarbanes-Oxley is, in fact, making a difference in the U.S., as some empirical studies are starting to show up. The other thing is that I have been working the last three years on the board of a New York Stock Exchange-listed company – Fedders Corp. – which is going through some challenging times right now; it's a turnaround situation. For a medium-sized company to actually comply with Sarbanes-Oxley is fairly demanding. So time is one piece of the argument, the other piece is it does pose demands, even though it is a move in the right direction from the regulatory, governance and investor's point of view.

Knowledge@Wharton : How do corporate governance standards in India compare to those in other parts of the world? Companies in global industries such as software including Infosys, Wipro, TCS, etc., have taken the lead in setting global standards of governance. Do you see similar moves in other industries?

Singh : The best companies [in India] are very comparable to the best of breed that we see in the U.S. One must also keep in mind, however, that the Indian governance system as it is evolving – while it borrows features from the United States – actually also borrows from other countries. So the emerging frontier of Indian governance in fact is very much comparable to the state-of-the-art across the world.

> "*It is important to keep in mind that even as firms like Infosys have really raised India's flag in a corporate sense on to the world stage very proudly and very successfully -- I was privileged for several years to be a board member of Infosys Technologies -- there have been firms like those in the Tata Group that have had a tradition of very high quality of governance.*"

I would make a distinction between the regulatory aspect and the normative aspect of governance, and differentiate that somewhat from what behavior actually takes place in the boardroom. I do have some experience of boardrooms in India – I have been doing this for the last six or seven years – it seems to me it's in the realms of behavior that some more catching-up is needed. The norms are in the right place but the change is always compared to where these firms were starting from. That change in behavior will take some time, though the best-governed firms are moving in the direction of normative adherence to the rules and also actual change in behavior in the boardroom.

Useem : In a sense, longer term, Indian companies – especially major Indian publicly listed companies – almost have no choice but to adopt world standards of good corporate governance. In the last 12 months we have seen huge inflows of foreign direct investment – they have doubled in the last 12 months. Private equity coming into India has tripled in the last 12 months. As the providers of foreign direct investment and private equity investment invest in Indian stocks and look at the governance of the firms they are investing in, they bring a mindset of looking at best practices in corporate governance worldwide. They look at the U.S., they look at the U.K. Since everything including equity investing is becoming so much more cross border, Indian companies that are going draw capital or list outside the country – or even those who list inside the country – feel it's almost a drumbeat to adopt world standards of good corporate governance – that the board should be not too big (and have) 10 to 12 members, independent committees [where] the majority of the directors should be non-executive, and so on.

Companies like Infosys have led the way because they are already in the world market; they are listed outside of India. Many people probably listening to this are investors in Infosys; certainly many Americans are too. The professional, institutional fund holders look at Infosys and make decisions on whether to keep their money in that company or go elsewhere, based on the governance standards it has have adopted. Infosys has led the way, and that's why there are probably so many international investors in that stock. Other Indian companies in the next five to 10 years are inevitably and unquestionably going to follow suit.

Singh : The point that Mike makes about the relationship between financial markets and foreign funds flows, particularly private equity money, which is broadly within the category of foreign direct investment – this is a very important point. I agree there really is no choice but to adopt these global governance standards. It is important to keep in mind that even as firms like Infosys have really raised India's flag in a corporate sense on to the world stage very proudly and very successfully – I was privileged for several years to be a board member of Infosys Technologies – there have been firms like those in the Tata Group that have had a tradition of very high quality of governance. But the bottom line is – this is inevitable, this is going to happen, and indeed, as I talk to executives in India, they are more and more accepting of the fact that if you want foreign money to come in, you have to be very open and you have to live up to world standards of governance. The link with foreign capital is a very important one.

The Finance Minister of India, P. Chidambaram, recently made a statement that India requires about $1.5 trillion in investment in infrastructure. As foreign capital comes in, it actually changes governance or puts pressure for higher levels of governance. Not all of this $1.5 trillion is going to come as foreign capital; some of it will. So imagine what this will do to demands for even better governance. This horse has left the barn and most Indian companies are galloping away, trying to get compliance as soon as possible.

Knowledge@Wharton : In speaking to executives of Indian companies, there is some anecdotal evidence that Indian companies that want to raise capital internationally are seeking to list their firms on stock exchanges in the U.K. or Canada rather than come to the U.S. The reason that is given is the rather onerous burden of Sarbanes-Oxley. Do you see this as a serious issue?

Singh : Just the other day, I was talking with a friend and colleague of mine who is a professor at the University of Toronto. He said he had just taken public a firm where he was the founder from the AIM (Alternative Investments Market) at the London Stock Exchange. This is a Canadian company that is going public in the U.K. This is a midsize company, (where) revenues may be less than $50 million a year. He said they did a very careful analysis of listing in New York, and found the cost of complying with Sarbanes-Oxley would be about $3 million. Now for the firm that has $50 million in revenue, this may be the better part of the profits it is making. So obviously this is a very serious consideration. They went to AIM and that's where they listed it – and it's a public company right now.

> “*Research evidence coming in reveals and confirms that Sarbanes-Oxley-compliant firms do benefit, having gone through that very tough internal process of scrubbing all the figures, and making certain all the right data get to investors.*”

I believe similar thinking is influencing Indian executives in India. It used to be some kind of a status symbol to come and list in New York. There is no question that Sarbanes-Oxley – certainly for midsize firms – has become somewhat of an obstacle. This doesn't take away from the point that Mike and I made earlier, that Sarbanes-Oxley is, in fact, doing good things for the investor community. Nevertheless, it has a cost.

Now, in all fairness, there are some very serious conversations taking place within the U.S. and this may lead to results sooner rather than later – where the SEC is itself saying that it may need to change some of the provisions of Sarbanes-Oxley.

Useem : The essence of Sarbanes-Oxley, the essence of Clause 49, is to help companies do what is pretty obvious once we say it. We want companies to provide transparency; we want companies to provide reliable data to those investors who part with their cash, on the assumption that it is going to be well used. The particulars of Sarbanes-Oxley have been much criticized here. We all know there is some effort to revise it, to reduce the relative cost, in particular, on smaller companies.

Research evidence coming in reveals and confirms that Sarbanes-Oxley-compliant firms do benefit, having gone through that very tough internal process of scrubbing all the figures, and making certain all the right data get to investors. Over time, that should lead to a higher stock price. Or a lower cost of capital – a different way to put that. The problem is there are different jurisdictions for listing. You could list in London, Hong Kong, Tokyo or in the U.S., but what we all want to see is a leveling up, and not a playing down. And so if it's easier right now to list somewhere else, that is the reality. We would hope that all exchanges do put in very acceptable but tough standards for transparency and reliability.

Looking again out five or10 years, this is going to be a world that is defined by the highest level of transparency and reliability as requirements. Sarbanes-Oxley may have led the charge, but the world is moving, roughly speaking, in this direction.

Is an Independent Director a Guardian or a Burden?

Many Indian companies – with a few exceptions – are owned or controlled by business families. This poses a special challenge for corporate governance.

According to Wharton management professors Jitendra Singh and Michael Useem, a crucial issue is the approach that the family member who heads the company takes towards independent directors. In well-managed companies, independent directors are viewed as partners of management and as outside guardians whose job is to make sure that management stays focused on delivering shareholder value. Other companies, however, might consider independent directors to be a burden that has to be borne mainly to satisfy regulatory rules for compliance.

In this second half of a two-part discussion on corporate governance in India, Singh and Useem – who, with their colleague Harbir Singh, are leading an Executive Education program on corporate governance in India – discuss these issues and more with India Knowledge@Wharton. An edited version follows.

Knowledge@Wharton : With a few exceptions, many Indian firms are owned or controlled by business families. What special challenge does this present for corporate governance?

Singh : This is a very important question. To my mind, a key issue really is: What is the approach by this key family executive to thinking about independent directors – whether it is the Chairman or the CEO, or the CEO and Chairman combined? How exactly does the leadership view independent directors? Are independent directors seen as an asset to the company, so that even if they come in and ask tough questions, it is recognized that this will only benefit the firm in the long run? Or are they seen as a burden to be tolerated primarily for compliance reasons?

“

Historically boards of directors were often seen not as a hostile force but as outsiders -- almost watchdogs -- looking over management, and sometimes mistakenly trying to second-guess management.

”

Depending on the way you think about independent directors, you are going to take a somewhat different approach toward what goes on inside the boardroom. These questions relate to the softer, cultural side, which is very, very hard to regulate. This, in fact, is in the realm of role modeling and leadership by the Chairperson of the board. The question is: How open are you to genuine input? Clearly, if someone is going to agree with you all the time, for that simple reason there's not that much you're going to learn from that person. But if there's someone who expresses different opinions, how is that viewed? The response to such explicit dissent in the boardroom sets the tone for the board dynamics. That is the crucial issue: What is the nature of the board dynamics? And what kind of a role model is the Chairman of the board?

This is an issue where some family companies – and there are some very professionally run family firms as well in India – as a general rule need to do some work in terms of changing the mindset. Independent directors are meant to serve the company's shareholders. They are not antagonists; they are not there to upset the apple cart. It will take some time for some family executives to learn to appreciate the value that independent directors bring.

Useem : Historically boards of directors were often seen not as a hostile force but as outsiders – almost watchdogs – looking over management, and sometimes mistakenly trying to second-guess management. They were there to monitor management and to ensure that management stayed focused on returning value to investors. But my own research and that of others in the last couple of years confirms almost exactly what Jitendra was alluding to. While the board is there to monitor, and it has the legal responsibility to protect investors' holdings, at many well-governed companies now the board is there really as a partner of top management. Top management has ideas for acquisitions, for setting up operations offshore and maybe even changing personnel. What better group to have at your elbow than non-executive directors who run their own enterprises, who think about these issues all the time themselves? In that sense, family and non-family controlled firms wisely look upon the board as a partner.

For that partnership to be strong, you

want the best independent thinkers on the board. So the quick summary is: Whether a firm is family or non-family controlled, getting great outside thinkers on the board provides you, if you are the chief executive, with a fabulous, informal group to turn to for immediate guidance and advice. They know the firm as well as you do. What better people to have working with you and not looking over your shoulder?

Singh : I would add another footnote before we move on. It's important to get really first-rate directors, but there is an important responsibility that comes to the chairman of the board. And that is, you have to model behavior in a manner where dissenting opinions are welcomed. I have been occasionally in boardrooms where on paper the independent directors have all the right credentials, and yet the group dynamic is such that even before making a comment, everyone looks at the chairman to see if he is smiling or frowning. You can bet that in that boardroom independence has already been lost. It's a really subtle thing that has to be managed by the Chairman.

"these provisions that become Clause 49 or Sarbanes Oxley are almost always a product of not a hostile force coming down from Congress or Parliament, but they are products tangibly of what people who do this for a living -- either as a regulator or as a corporate executive -- say will make a difference in the affirmative sense."

Knowledge@Wharton : Even before Clause 49 came along, people like Rahul Bajaj or Kumar Mangalam Birla were working with organizations like SEBI (Securities and Exchange Board of India) or the Confederation of Indian Industry to create corporate governance codes. Have these made any difference to governance in Indian companies, or have these reports just been sitting on shelves, gathering dust?

Singh : You are right; we have seen a plethora of reports. When Mike and Harbir and I went to India last year for the first offering of our corporate governance program, we had the opportunity to see some of these reports. What is interesting is, while in matters of detail there may be some differences between them – one report might say at least one-third of the directors ought to be independent, and another says the number ought to be at least 50% – these are matters of degree.

What was interesting is that a series of reports, over almost the last decade or longer, have been urging greater transparency, participation (and) independent outside directors on the board, and these are changes in the right direction. The actual change in behavior is the next level after that, and it will take time. But on regulatory efforts – the normative side of corporate governance in India – SEBI has done a very, very good job. We had the occasion to spend time with (M.) Damodaran, the Chairman of SEBI – a very fine thinker who emphasizes the right values. While you will hear arguments every now and then from corporations against specific aspects of a particular issue like Clause 49, or any particular regulatory approach, no one is arguing against the need for better governance. This takes us back to the point Mike made earlier – that the links to financial inflows into India are so strong that there is no way to get away from it.

Useem: In almost every major country where there is an active private enterprise system, over the last five or 10 years the equivalent of the CII and the equivalent of Rahul Bajaj and others have stepped forward in Australia, U.K., Canada, New Zealand, Japan and so on, to put forward a set of guidelines that are often then turned into legislative provisions or regulations. Clause 49 and Sarbanes Oxley are great examples of each. If you take a step back from that and ask yourself what's going on, it is a partnership between the public sector – those who run SEBI, or over here, the SEC (Securities and Exchange Commission) and the NYSE (New York Stock Exchange) as a semi-private, semi-public institution – and those who run companies.

Thus, these provisions that become Clause 49 or Sarbanes Oxley are almost always a product of not a hostile force coming down from Congress or Parliament, but they are products tangibly of what people who do this for a living – either as a regulator or as a corporate executive – say will make a difference in the affirmative sense. One data footnote to support this is a study of what happened to companies in

Indonesia, Malaysia, Thailand and Taiwan during the crisis of 1997, when the Thai baht crashed by 50%. The study of those four countries reveals that the companies that recovered the fastest had adopted – prior to the crisis – world standards of good governance.

It's a way of saying that what SEBI and the SEC have done is intended to help the companies help themselves, when sometimes company executives don't quite see what should be done. There has been some resistance to these acts, but longer term, unequivocally, the research and experience pretty much say the same thing: these provisions are good. Finally, getting back to schooling, the art of being a good director is not necessarily completely natural. For those coming onto a board – even those who have been on a board for a while – take an opportunity to think with other directors and those who are experts in good governance: What is required in a given context, whether China or India or the U.S.? It's a good idea for these directors' schools to be up and running.

Singh : I would add a quick footnote to that. I have found in my experience as a director that you can be most effective sometimes by putting aside your executive hat so that you are not really the key decision maker, although you can be. You almost have to hold your own thinking in abeyance. I have found some of the most effective directors I have seen just ask the right questions and then sit back and let the management shape the discourse. The idea is to help management make the best possible decision, using the input in the boardroom. This calls for somewhat different skills. I agree with Michael's point about directors' schools.

> *"I have found some of the most effective directors I have seen just ask the right questions and then sit back and let the management shape the discourse."*

Knowledge@Wharton : You both mentioned China briefly. How does corporate governance in India compared with corporate governance in China? After all, Chinese companies are also attracting capital internationally. What similarities and what differences do you see in corporate governance standards in the two countries?

Useem : China is ahead of the slope compared to India in terms of foreign direct investment and equity investment, although some may argue that in terms of equity investing, India may be a better and safer choice than China. The jury is out on that for a while. China has its own traditions as India does.

It's a mistake if we look blindly to any other operation, any other company, or any other country for ideas on what ought to be done in our company or our country. This is true in the same sense that General Motors looks to Toyota to see how Toyota runs itself, but it shouldn't blindly adopt the Toyota lean manufacturing system. And thus, as India looks to China and the U.S. and Japan for guidance on corporate governance, it should look to see what probably does work, but make certain that these ideas are brought back into the Indian context. They should be molded, adapted and used in a way which makes sense in that context.

In China, the Government is a controlling partner in many companies. Often before a CEO is appointed even in a publicly held company, the top people will check with a Minister in Government to see what is appropriate in terms of that succession. Indian companies, of course, do not face this situation. This is one argument for international investors why India may be a safer choice.

We'll leave that as an open question but the main parallel I should sum up with is this: In China, there is the same kind of discussion going on among company executives and directors as we have in India and in the U.S. In all three countries – China, India and America – there is an active search to find out what are some of the better five or six key practices for boards to be strategic, to function as a partner, and at the same time protect outside investors. In that sense, India and China are on a parallel track. And both countries are looking over their shoulders at one another, not to mention the U.S., to try to find the right formulation for equity investing and good governance in their countries.

Singh : This comparison of India and China is a very interesting one. My summary assessment will be that both countries are headed in – as Mike said – parallel directions and may end up looking similar. But they are starting from very different places. In India, even in the years between 1947 and 1991 before the economy started opening up, the Indian economy was always 50% in the private sector, and as such, notions of governance were not entirely foreign to the Indian private sector.

"The Indian private sector has been much more receptive, because there was already a tradition of governance, although they've had to ramp up their practices as well."

China, between 1949 and the mid-1970s, which is the early part of the Chinese economy opening up, was a relatively closed economy. It was very much a version of a state-centered socialism economy being run along very different lines than that in India. As a result of this different institutional history, even the best Chinese firms that you see today that are going public – in fact, many in New York or Hong Kong or elsewhere – they will have different levels of participation by different levels of state agencies. Sometimes it will be the Federal Government, and other times it will be the provincial Government, or the municipal city Government, or other state institutions. The Chinese context is considerably more complex on that front.

While there have been state-owned companies in India that have also gone public, their numbers have been much smaller compared to China. As such the Chinese context is different, and somewhat more complex in terms of state participation. The Indian private sector has been much more receptive, because there was already a tradition of governance, although they've had to ramp up their practices as well.

We have a notion in management of past dependence: Where you can go next depends on where you have been in the past. This is also true of corporate governance. Nevertheless, both countries, given the huge level of foreign investment inflows, are feeling the same kinds of pressures from the global financial community. It's an open question pretty much as Mike hinted, as to who will get where in the future. But I think they are both going in the same direction, and feeling the same pressures.

"It's better to let someone think you are an idiot than to open your mouth and prove it".

– Anon

(Innovation is the buzzword in business today. And why not, because, come to think of it, innovation is what drives change. Innovation in product, service or process rightly seeks to be in the forefront of business growth. In fact, it is the driver that contributes to life in a positive way by reducing cost, effort, time etc. enabling the user to do and achieve much more than before. In the process though, it also expands the market by creating greater demand. Today, more than ever before, as economies are on the brink and jobs are on the chopping block, it is innovation that can add value if it creates cost solutions and brings jobs to the assembly line. We bring a representative excerpt from "Managing Innovation" and would encourage readers interested in the subject, to read the book which is already in its third edition.

Following excerpt from Managing Innovation by Joe Tidd, John Bessant and the late Keith Pavitt, published by Wiley India (P) Ltd. Third Edition)

In a Nutshell

"We always eat elephants…" is a surprising claim made by Carlos Broens, founder and head of a successful toolmaking and precision engineeering firm in Australia with an enviable growth record. Broens Industries is a small/medium-sized company of 130 employees which survives in a highly competitive world by exporting over 70% of its products and services to technologically demanding firms in aerospace, medical and other advanced markets. The quote doesn't refer to strange dietary habits but to their confidence in 'taking on the challenges normally seen as impossible for firms of our size' a capability which is grounded in a culture of innovation in products and the processes which go to produce them.

At the other end of the scale spectrum Kumba Resources is a large South African mining company which makes another dramatic claim 'We move mountains'. In their case the mountains contain iron ore and their huge operations require large-scale excavation and restitution of the landscape afterwards. Much of their business involves complex large-scale machinery and their abilities to keep it running and productive depend on a workforce able to contribute their innovative ideas on a continuing basis.

Innovation is driven by the ability to see connections, to sport opportunities and to take advantage of them. When the Tasman Bridge collapsed in Hobart, Tasmania, in 1975, Robert Clifford was running a small ferry company and saw an opportunity to capitalize on the increased demand for ferries and to differentiate his by selling drinks to thirsty cross-city commuters. The same entrepreneurial flair later helped him build a company Incat which pioneered the wave piercing design which helped them capture over half the world market for fast catamaran ferries. Continuing investment in innovation has helped this company from a relatively isolated island build a key niche in highly competitive international military and civilian markets (www.incat.com.au)

But innovation is not just about opening up new markets it can also offer new ways of serving established and mature ones.   Despite a global shift in textile and clothing manufacture towards developing countries the Spanish company, Inditex (through its retail outlets under various names including Zara) have pioneered a highly flexible, fast turnaround clothing operation with over 2000 outlets in 52 countries. It was founded by Amancio Ortega Gaona who set up a small operation in the west of Spain in La Coruna a region not previously noted for textile production and the first store opened there in 1975. Central to the Inditex philosophy is close linkage between design, manufacture and retailing and their network of stores constantly feeds back information about trends which are used to generate new designs. They also experiment with new ideas directly on the public, trying samples of cloth or design and quickly getting back indications of what is going to catch on. Despite their global orientation, most manufacturing is still done in Spain, and they have managed to reduce the turnaround time between a trigger signal for an innovation and responding to it to around 15 days (www.inditex.com/en).

"It's a job that's never started that takes the longest to finish."

– J R R Tolkien

ANATOMY OF A FRAUD :

Corporate India plagued by fraud: PwC survey

ECONOMIC crime is on the rise in the country, with Indian companies now reporting newer types of crimes such as money laundering and financial misappropriation, according to the PricewaterhouseCoopers (PwC) Economic Crime Survey 2005.

The findings suggest that more than half the organisations surveyed in the country have faced at least one form of fraud during the last couple of years, with the number of companies reporting fraudulent incidents increasing from 24 per cent in the 2003 Survey to 54 per cent now.

The survey also suggests that while the most prevalent economic crime experienced in the country was counterfeiting, corruption, and bribery (in that order), newer crimes are on the rise.

In particular, there has been a seven-fold increase in the number of companies reporting financial misrepresentation, while eight per cent of the Indian respondents reported cases of money laundering in the current survey, as against no such cases in the previous survey, PwC said in a release.

The biennial global survey, involving 3,634 companies from 34 countries, was conducted in association with Germany's Martin-Luther University, Halle-Wittenberg.

Companies in India, on an average, reported suffering five fraud incidents since 2003 and no industry, regardless of size or it being regulated or unregulated, was immune from fraud, the findings suggested.

According to the survey, the typical perpetrator of economic crime in India is a graduate or post-graduate male aged 31-50. Also, insiders were involved in one-third of the frauds in the country, with 37 per cent of the respondents reporting that the internal perpetrator was a member of the senior management; in 32 per cent of the cases, the culprit was from the middle management.

While there has been a rise in the reported fraud worldwide, the Survey suggests that the unusual rise in the number of reported incidences in India may be attributed to greater awareness and introduction of new legislations on fraud prevention and detection, which has resulted in organisations reporting more incidents of fraud to demonstrate transparency and better governance.

The Survey also suggests a higher degree of vigil among Indian companies.

About 99 per cent of the respondents had instituted one or more measures, including internal or external audits, internal controls, compliance programmes and code of ethics to counter economic crime.

While almost all respondents have one or more measures of detection and prevention of economic crime, the most common means of detecting fraud, interestingly, was by accident or chance (about 37 per cent), the Survey said.

Also, in 42 per cent of the cases in India, it was possible to make recoveries from the perpetrator, as against 33 per cent of the cases in Asia-Pacific and just 28 cases globally, the Survey said.

This is a report published in The Hindu Business Line dt. 26 December, 2005

Well, who should be saying this, but..PwC which is in the eye of the Satyam storm!

Of course, the last word on the role of the auditors in the Satyam scam is yet to be heard. Uncannily, though, we can find an echo of some of the features listed by PwC in the Survey, in the Satyam imbroglio!!

Good Grooming Wins Half The Battle

Suneeta Sodhi Kanga

Ms. Suneeta Sodhi Kanga is a corporate trainer in the area of grooming, international etiquette, wine appreciation, fine dining, beauty and style etc. Started her career as air hostess with Air India and was declared Miss World Airlines 1989 and has flown as VVIP hostess with prominent personalities such as Prime Ministers etc. on official foreign visits. She started her own consultancy for grooming and beauty, while also launching a slew of Ayurvedic beauty products. She has a very exclusive client list which includes prominent blue chip Indian and MNC corporates and is a regular speaker at various seminars and discussions in educational and other institutes on the subject of good grooming and etiquette. She contributes regularly to journals like Sommelier on wine tasting and appreciation, and rediff.com In this missive addressed to the young upwardly mobile corporate executive, Suneeta dwells on the need to create an 'aura' around you that speaks of culture, education and upbringing without saying a word!

"A professional without manners is the equivalent of a product with no packaging; it has no appeal…"

Polished professionals are the most valuable asset for any organization. They are among the most cost effective methods for a business to generate positive public relations. Individual's knowledge of the proper etiquette for any business and social situation will allow concentration on the business at hand and not on their behavior.

Therefore social and business graces are assets, which in today's corporate world one cannot afford to do without. One has to package him/herself for success by developing a wholesome total image in order to have the winning edge and create a lasting impression.

As a qualified professional, you believe the future of a young executive is going to be a bed of roses where you will flash your business card and the rest will take care of itself. Wow, if only life were that simple! Of the millions of graduates every year, what factors will ultimately contribute to success? Does that make you think of how someone who was not a topper made it bigger than what most people thought possible?

Well, apart from the various technical competence issues with regard to the subject, the outside world is not going to be a theoretical exam where the examiner is only rating you based on a paper. The world outside is an interactive conundrum wherein you are required to multitask, make decisions which can not be picked up from the text book, grin and bear and also pander to various human equations which may not always be perfectly balanced. And the successful person will be the one who can balance all this and more and walk with élan. This is what constitutes soft skills that are not always taught in every business school. This is also what goes under the definition of etiquette which is not just restricted to dressing right but involves a whole gamut of interactive, presentation and communication skills that help you gain that nebulous feature called the "extra edge"

Picture this: As a young B-School passout. you have been offered your dream position in a company and post your initial

"*One has to package him/herself for success by developing a wholesome total image in order to have the winning edge and create a lasting impression.*"

training of the first three months; you are required to make a presentation to your seniors to help them determine your final divisional placement. You are keen to make a great impression to allow you to leverage your request for the division of your choice.

You have worked very hard for 3 months trying to understand operations, procedures and processes. Comes the big day and Murphy's law applies: If something has to go wrong, it will. You are caught in downpour waiting for your train, bus, taxi whatever and are forced to wait it out to not soil your crisp, white shirt / blouse. (If you chose to wear red, it was wrong to begin with). You reach the office at 9.10 am for the 9.00 a.m. presentation and then need another 10 minutes getting your act ready. How will you deal with this?

You can dash through the corridors with the big wrinkles of anxiety that are threatening to burst out of your skin or you can just collect yourself, take a deep breath and collect your belongings calmly while walking up with an erect back and to the waiting eyes in the meeting room. (It is easier said than done but the efforts pay off). Enter with confidence (not arrogance), apologize sincerely (not subserviently) for the delay without any long winded explanation people are not interested in knowing the details of why you are late and start off on your presentation assuring people that you will be able to cover all salient points within the time allocated. And stick to that please Do not get carried over by your own presentation and exceed the time limit. You caused the delay once, don't be the cause twice!

So Voila! Your efforts paid off and now comes the next big step. The big welcome dinner where all the senior management including the CEO will welcome the new recruits. Panic strikes. What will you wear? The destination is a hip joint far from home. By the time you arrive there in your auto rickshaw, train, bus or all three you are unlikely to look pristine. A little organization and planning goes a long way. Gentlemen, the ladies have a mild edge here with their bags which can carry little life savers like deodorants, wet tissues and sometimes even a clean shirt / blouse, scarves, pearls etc. Start off with a shower, which not only makes you look and smell good but will make you little more confident of taking on a long evening post a hard day. A deodorant is NOT a luxury but a necessity in our weather. If you can, carry one in your bag for a long haul and reuse just in time. Better safe than sorry. Guys, unclean nails and dry scaly skin stopped being macho a long time ago in the stone ages. Clean up and moisturize just enough so that your palms are not sweaty for handshake. A business function dress code if it says casual does NOT include jeans. Wear smart casuals like khakis, a colored shirt and semi formal shoes. Ladies, no plunging necklines, mini skirts or figure hugging Tee shirts. While it is a party, its still a business party. In India a Saree is ubiquitous both formal and semi formal. However, stay away from Kanjeevarams and Paithanis for a business function. A simple chiffon, a crepe, silk or cotton will do beautifully.

Also, please do not go up to every senior person and hog all their time making shop talk. Be gracious, enter into polite conversation and let the person talk to all present. This is not the time to get approvals for your most recent transaction. Please address senior's spouses as Mrs. or Mr. followed by the surnames.

Get on to the finishing line of your dream position and you find that the race has just begun. You find you are the only new recruit in the division what with the recession cutting back recruitments and you are almost an outsider in an otherwise cohesive team. You do care to belong and work together and feel you have significant more value to add than even some senior hands? Are you going to achieve this by distributing free for all unwanted advice or intrude every meeting / presentation with your own wise inputs? Please apply some basic rules of common sense and allow people as much respect as you expect. Do not trash other's work even if it deserves to be or interrupt with comments without listening entirely to another person speak. Wait for your time, allow your seniors to speak up and finish and then pose your inputs as suggestions rather than as statements to receive a warm reception. Please grant people the consideration that they have been doing a job for, sometimes as long as you have walked the earth and while your ideas may be dynamic, their experience will only help you implement. This will help break the ice too. And if the ice breaking results in some people sharing their prejudices about other co-workers, pretend that you need to visit the loo really bad! Do not indulge in idle gossip about co-workers. If you can say something good, be vocal. If not, keep it to yourself.

Work will introduce you to several sales calls, conferences, meetings with cross border groups, dinners and conferences. Conduct yourself with grace and confidence. Confidence does not include chucking your new found designation mentioning swank business cards. It means being conscious of cultural differences and learning how to present and introduce yourself on telephones, video conferences and in person. On international calls, make your name very clear and repeat it if necessary. East Asian names can be sometimes difficult for Indians. Please repeat and check with the person if you are pronouncing the name right. Do not compliment people of the opposite sex on their looks, clothes etc unless you get to know them very well. "Very well" is not one evening of wine and food. Do not talk about "Pune" in India to a Japanese like they know our entire history. Pre empt it with a small explanation of a city / town in Western India with a large automobile manufacturing base etc. It gives them better comprehension of the backdrop. Westerners are lot more complimenting than Indians and conscious of cultural sensitivities. While they are complimenting about Indian food, do not pile their plate with the spiciest chicken dish on the menu. Also, answer their questions about India politely but do not get carried away about educating them about all social and economic nuances. They are looking to make polite conversation and learn; they did not ask for a discourse. Do not apologize or rave about the home country Be factual and answer precisely. At a social do, it is nice to make polite conversation about the family but not start a discussion on marital issues. Finally, remember if you are the host, the purpose of the dinner / lunch is to better acquaint yourself with your business colleagues. Not only to enjoy the best dishes of the menu. So, do not lose focus and feed yourself like a glutton while not attending enough to your guests. Never, never, never get drunk at a business do; or lets try and extend that to may be - any place!

At the end of the year, when it is appraisal time, try and list out your efforts and achievements clearly. List out reasons for failure, if any, while not trying to pass the blame. Use generic terms like "organizational goals were different" and / or "systemic issues" to explain differences versus telling your boss that Mr. Difficult shot down your proposal. Carve out plans for the next year and list down your targets. Discuss the means you will need without being unduly demanding. The 3 magic words from Kindergarten "Please, Sorry and Thank You" always go a long way in life no matter where you are.

> *"Get on to the finishing line of your dream position and you find that the race has just begun. You find you are the only new recruit in the division what with the recession cutting back recruitments and you are almost an outsider in an otherwise cohesive team"*

Finally, through all your business and work, personal life does not come to a stand still. One meets new people, connects, socializes and sometimes tends to "fall" for a striking co-worker. Please be as discreet and respectful about how you handle this situation. After having asked a person out a couple of times, if you do not get any positive response, ACCEPT IT WITH GRACE. Continue to be professional with the person involved and do not make it lunch time conversation. If things move forward, be dignified while not trying to be covert. In general, people can tell non-platonic interests pretty easily and one need not deny them but neither do you need to announce from the roof tops. Finally, be very careful if this dating should be with a significantly senior or junior person. Should things not go the way you planned them to, life can get fairly unpleasant and difficult. Also, please check organizational rules and be very careful in updating your knowledge about issues related to sexual harassment as they can affect one's career adversely.

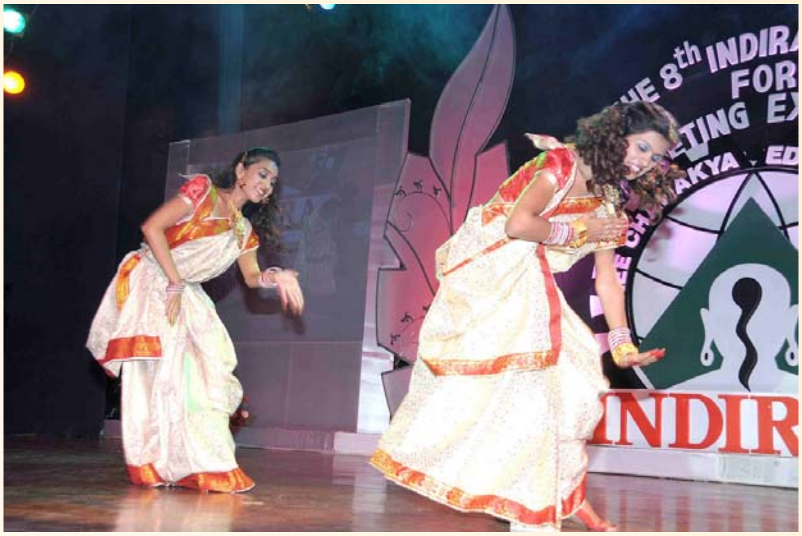
At work, just as in life generally, there are no Black and White rules. One has to remember to keep one's dignity at all times no matter how trying the situation may be while being honest and diligent in performing all tasks. Sloppiness and lethargy are traits that need no advertising they always have high visibility. Also, mistakes are not death knells. Should you ever have to rush to a meeting after a long flight, and you are delayed, it is understandable and it is okay to call and explain and ask for a rescheduled time. A long time ago, an AIR INDIA executive once said "It is never the problem that is one; it is how you deal with the problem that makes it big or small." Faux Pas are common. It is not the end of anything; one just has to apologize, keep one's sense of humor and carry on. Everyone has been through the same concerns and problems as you will go through. At best, they will reminisce about their past, smile and appreciate the way you handled it.

On a lighter note, do you remember Will Smith showing up for his offer letter in "The Pursuit of Happyness" after he has spent a night in jail? If not, check it out; while its the movies, sometimes it is inspirational and educative. The basic commandment of "Do unto others as you would have others do unto you" applies to almost all situations in life.

"We must adjust to changing times and still hold to unchanging principles."

– Jimmy Carter

Scintillating Indira Marketing Excellence Awards Night



The city's glitterati and the who's who of the business community congregated at the Indira Group of Institutes' Dhruv Auditorium on Saturday 7th March to witness the 8th Indira Awards for Marketing Excellence function, along with the distribution of the Indira Excellence Awards to corporates for creating opportunities for today's youth, which was a spectacle of dance, music and some spicy humour. The Chief Guest of the day was veteran film actor Shatrughan Sinha and the Guests of Honour were Dr Satyapal Singh, Commissioner of Police, Pune and Mr Adil Malia, Group President, Essar Group. Shatrughan Sinha spoke with his customary élan about how he made good in the tinsel world inspite of the many doubting Thomases who seemed to believe that his name and face did not evoke hope for a filmy career. Finally, though, his confidence in himself and his abilities made all the difference to his career. Dr Satyapal Singh gave practical tips on how to make the best out of life even if the circumstances of the day did not favour you, but grit and determination and the ability to keep to the path of truth and honesty are sure to produce desired results.

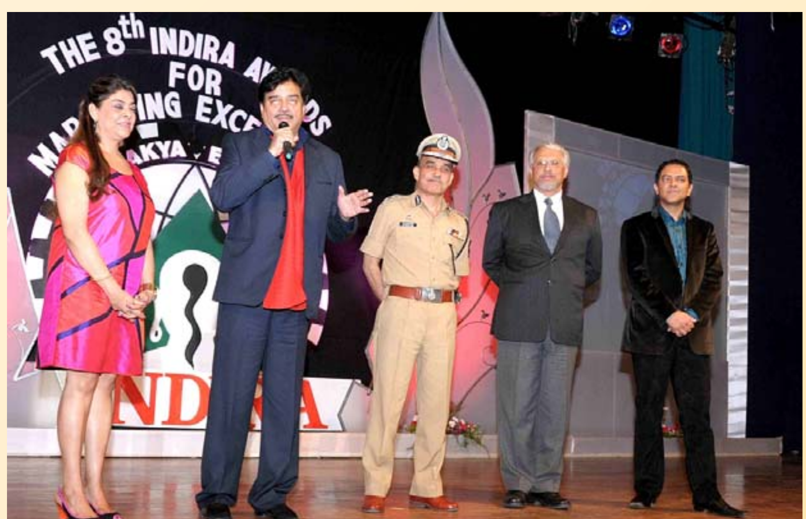
The theme of the event this year was honouring the Divas to salute the women who tread a different path to find their niche in life, appropriately to coincide with the International Women's Day. Winners who had made a mark in different verticals, be it beauty, travel, advertising, insurance, food, social initiatives etc. walked up to the dais amidst

huge applause to receive their Awards from the Guests. Each of them spoke of their inspiration and the secret of their success, for the students to emulate.

The distribution of the Indira Excellence Awards to Corporates for creating opportunities for the youth of the country saw companies from sectors like IT, Telecom, Hospitality, Manufacturing, Insurance and Logistics walk up to receive their recognition for having braved the severity of the downturn while creating avenues for gainful employment for the youth.

The high point of the evening was the wonderfully choreographed dance numbers in-house to pay tribute to the greatest female film artistes like Hema Malini, Madhuri Dixit etc. with extracts of their musical offering from their films, performed by the students of the Indira Group which could have been the envy of the professionals in this line. And of course, the event began with a bang, yes, Jai Ho the Slumdog Millionaire hit with a cast of 90 Indira students packing their energy and art into the number which was received to thunderous applause from all.

The event was co-ordinated by Fun and Joy at Work, Mumbai.

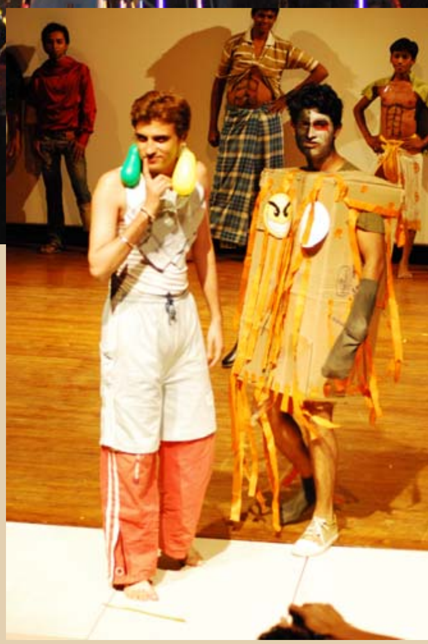


8th Indira Awards For Marketing Excellence 2009

Sr.	Name of the Awardee	Company	Designation
1	Ms. Heena Akkhtar	Travel Port Holidays	Chief Operating Officer
2	Ms. Nisha Javeri	MYRAH Spa	Chief Executive Officer
3	Ms. Deanne Panday	Play Health & Fitness Pvt. Ltd.	Director & Fitness Trainer
4	Ms. Zeba Kohli	Fantasie Fine Chocolates	Director
5	Ms. Pushpa Joseph	Gati Limited	Head – Marketing Services
6	Dr. Purnima Mhatre	Dr. Purnima Skin Care Pvt. Ltd. Gorgeous Skin Care Clinic	The Med Guru CMD
7	Ms. Nitu Jaiswal	Bharti Wal-Mart Pvt. Ltd	Head – Sales & Business Development Office & Institution Cash & Carry
8	Mr. Rakesh Pandey	Kaya Ltd.	Chief Executive Officer
9	Ms. Arti Mehta	The Mobile Store Limited	Chief Marketing Officer
10	Ms. Nina Tayal	Krishna Group (K Lifestyle)	Partner - The GRAB Store
11	Mr. Dhruv Lakra	Mirakle Couriers	Founder & Chief Executive Officer
12	Ms. Shweta Deliwala	Attic – Lifestyle Store	Fashion Designer & Co-Owner
13	Dr. Jamuna Pai	Blush Clinics Pvt. Ltd.	Managing Director
14	Ms. Reema Nanavaty	Self Employed Women's Association (SEWA)	Director of Economic & Rural Development
15	Ms. Varuna D. Jani	Varuna D Jani Fine Jewellery Pvt Limited	Director
16	Ms. Dipali Goenka	Welspun Retail Ltd.	Director
17	Ms. Leena Dhankher Joshi	Tata AIG Life Insurance Company Ltd.	Vice President and Head Life Profit Centre
18	Ms. Sonali Raheja	Tresorie	Managing Director
19	Ms. Preeti Vyas Giannetti	Vyas Giannetti Creative Pvt. Ltd.	Chairman & Chief Creative Officer
20	Mr. Prahlad Kakkar	Genesis Film Production Pvt. Ltd.	Founder & CEO
21	Bunty Peerbhoy	MAA Group Holdings Pvt. Ltd.	Chairman
22	Ms. Sabira A. Merchant	The Edge Academy for Corporate Grooming	Theatre Personality, Corporate Advisor & Communication Expert
23	Ms. Vandana Luthra	VLCC	President
24	Priti Choksi	Gitanjali Gems Pvt. Ltd	Director
25	Ms. Smiti Ruia	Paprika Media Pvt. Ltd.	Chairperson

2nd Indira Excellence Award

Sr. No.	Name of the Awardee	Company
1	Mr. Rathi	Oracle India Pvt. Ltd
2	Ms. Pratima Salunkhe	Tech Mahindra Ltd.
3	Ms. Bhavna Phadnis	St. Jude Medical India Pvt. Ltd
4	Ms. Meenal Adesh	Philips Electronics India Ltd
5	Mr. R. V. Sridhar	Shree Precoated Steels Pvt. Ltd.
6	Mr. Gaurav Vasudev	Systemair Fans Pvt. Ltd.
7	Ms. Nupoor	Freight Systems (India) Pvt. Ltd.
8	Mr. Shharad Dhakkate	SBI Life Insurance Co. Ltd.
9	Mr. Judhajit Das	ICICI Prudential Life Insurance Co. Ltd.
10	Ms. Mandeep Maitra	HDFC Bank Ltd.
11	Ms. Sudheshna Kogantti	Axis Bank Ltd.
12	Mr. Jitesh Sethi	Reliance Capital Asset Management Ltd.
13	Ms. Debanika Bhattacharya	AcNielsen
14	Ms. Ava Bathen	The Indian Hotels Company Ltd.
15	Mr. Mohan Rao	The Leela Palaces, Hotels & Resorts
16	Mr. Mahesh Choudhary	Virgin Mobile India
17	Mr. Sudhakar Gudipatti	TATA Teleservices (Maharashtra) Ltd.
18	Ms. Mahima	Reckitt Benckiser (India) Ltd.
19	Mr. Anindya Basu	eClerx Services Ltd
20	Mr. Srikanth Karra	Syntel Inc.



The Indira School of Communication held its first ever Inter Collegiate Fest from the 13-15th February 2009. The fest was called CreaZi being the acronym for 'Creative Zing'. The theme of the three day event was Villains and keeping in mind the theme, contests like 'Don Khush hua' 'Alter Ego' 'Criminal Within' 'Incognito' and many more contests which tickled the funny bone were organized. This event was inaugurated by Mr. Bharat Dabholkar, Mrs. Tarita Mehendale Chairperson IGI, Mr. Chetan Wakalkar, Group Director I.G.I and Ms. Sonali Kulkarni Marathi Actress and Brand Ambassador I.S.C. The event culminated with a live performance by "Agnee" which rocked the crowd for 2 hours.

Indira School of Business Studies, Pune : Convocation Batch 2006-08

Indira School of Business Studies (ISBS), Pune, celebrated the passing out of PGDBM Students, christened as Pioneers, in its Convocation Ceremony on 31st January 2009.

The ceremony was marked by the traditional classical dance performance - Ganesh Vandana, performed by students of ISBS, followed with nostalgia, a film on the two years spent by the Pioneers at Indira School of Business Studies.

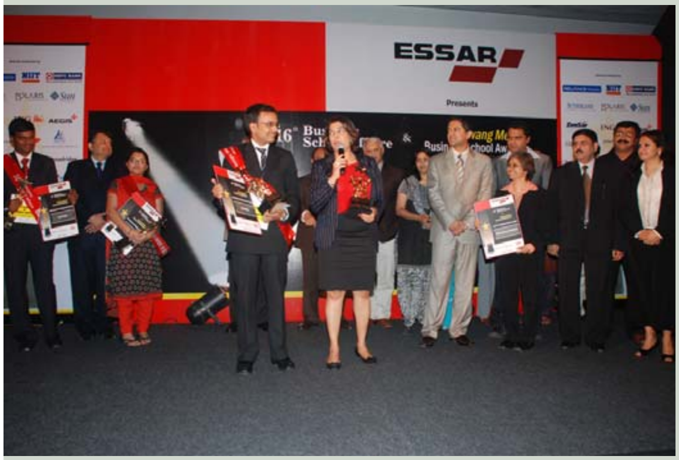
The Chief Guest for the occasion was Mr. Paresh Chaudhry, Group President, Corporate Communications, Reliance Industries Limited (RIL). In his convocation address, Mr. Chaudhry stressed the need for building Brands : "Through Strategic Internal Communications" and creating a brand experience that engages the customer and differentiates the brand by communicating the ideals and values it stands for. Prof Chetan Wakalkar, Group Director, Indira Group of Institutes addressed the students on the relevance of being ever vigilant to the demands of the Industry and seek opportunities in the face of challenging global environment.

Mrs. Tarita Mehendale, Chairperson Indira Group of Institutes stressed on the relevance of a wholesome personality to become truly liberated individuals. Ms Madhuri Sathe, Director-Corporate Relations, Indira Group, reiterated the relevance of living each day to the fullest with passion in ones heart.

Making History - the Indira way!

Indira Group of Institutes wins 14 major awards at Dewang Mehta Business School Awards

Making history has now become a habit with Indira, the latest instance being at the Dewang Mehta Business School Awards at Mumbai when the Group bagged 14 of the Awards to the resounding applause of the audience and the organisers at the function.



The awards that Indira received under various categories are as follows :

1)	Best (Private) Business School Overall	- Indira Group of Institutes
2)	Hall of Fame Award	- Mrs Tarita Mehendale
3)	Best Teacher - General & Strategic Management	- Mr Chetan Wakalkar
4)	Best Teacher - Human Resources	- Mrs Renu Bhargava
5)	Best Teacher - Marketing Management	- Mr Pandit Mali
6)	Best Placement Brochure Contest 1st Prize	- Indira Group of Institutes
7)	Presentation Contest 2nd Prize	- Indira Group of Institutes
8)	B School Leadership Award	- Indira Group of Institutes
9)	B School with Best Industry Interface	- Indira Group of Institutes
10)	B School with Best Academic Input (Syllabus) in Retail / Services	- Indira Group of Institutes
11)	B School that encourages Leadership as a part of the curriculum	- Indira Group of Institutes
12)	B School with Best Academic Input (Syllabus) in Marketing	- Indira Group of Institutes
13)	Paper Presentation Contest (Research Based) 3rd Prize	- Ms Prajakta Kulkarni & Mr Mandar Bhardwaj (ISBS Students)
14)	Best Student in Management Award	- Ms Shilpa Yadav (ISBS Student)

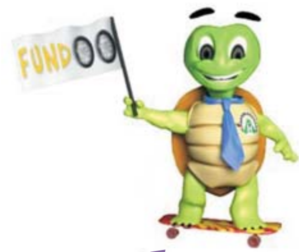
Congratulations to winners, you have done us proud. This recognition has encouraged all at Indira Group of Institutes to scale newer heights, and who knows, make history once again!!

The opening ceremony

Winners of various competitions held

Judges being felicitated, Praful Sarangdhar, Vinay Kanojia and Pravin Vyas.

Briley-Hurdle IICS - Fundoo'09



Fundoo '09

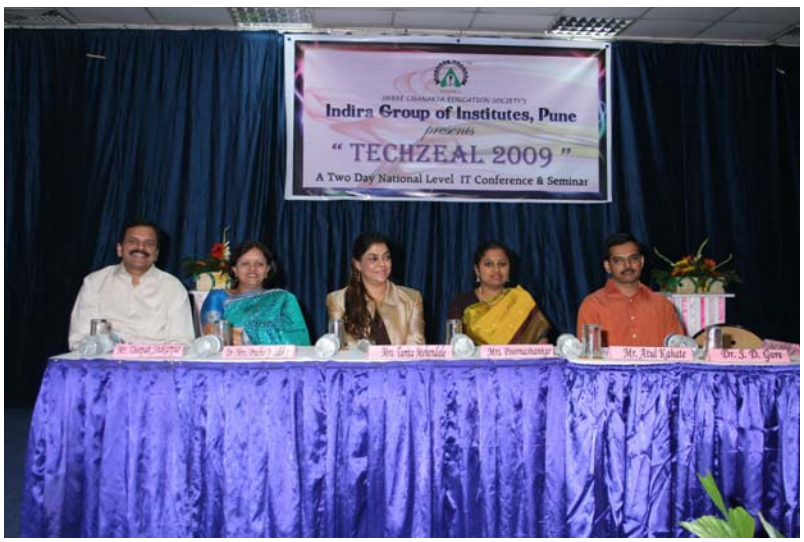
Indira's very own intra college event

Fundoo '09 was hosted by IIMP on 13th and 14th March, 2009. The event started with the lighting of lamp & unveiling the Fundoo trophy at the hands of Chairperson of Indira Group- Mrs. Tarita Mehandale, Group Director- Prof. Chetan Wakalkar, and Dr. (Mrs.) Prachee Javadekar- Director IIMP.

The Theme for this year was Innovation and Speed well represented by Mascot " INSPEE".

21 formal competitions were held across 4 categories viz Arts & Creativity, Sports, Management & Cultural. 3 other events cosisting of Tug-of-War, Karaoke & Skit were also held across Indira Campus during the two days.

IIMP Won FUNDOO Trophy second time in a row.

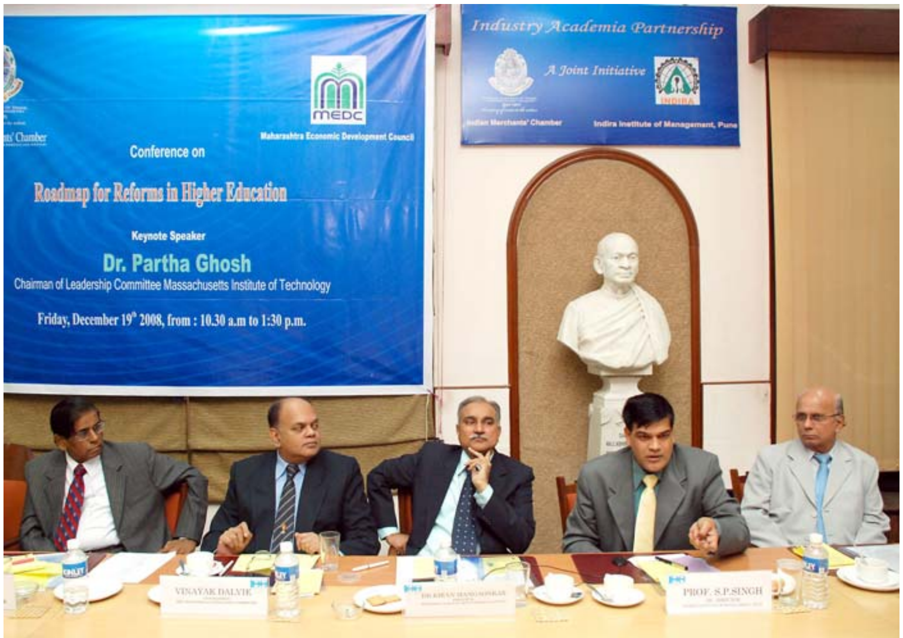


TechZeal 2009

Indira Institute of Management hosted its two days mega event TechZeal 2009 on 13th Feb 2009 and 14th Feb 2009. TechZeal is one of the major events of IIMP aimed at highlighting and exchanging knowledge, from all four corners of the country, by means of various paper presentations, seminars by internationally renowned speakers, various quizzes and games,etc. IIMP is hosting this event since 2006.

Around 500 colleges from all over the country were invited for the event. A resounding response involving 400 participants was the result .

The function was addressed by a host of speakers from outside and the host institute such as the Chairperson, IGI, Ms. Tarita Mehendale, the Group Director, IGI, Mr. Chetan Wakalkar, Dr. Prachee Javadekar, Director, IIMP, Mr. Deepak Shikarpur, Chairperson, IT applications, Computer Society of India, Pune, Mr. Vijay Mukhi, Vice President, IT Committee of the Indian Merchants' Chamber, Mr. Vinay Deshpande, CEO and Founder, Encore Software LTd, Mr. Pradeep Oak, Director, Oak Systems Ltd., and of course, Mr. Ankit Fadia, the Ethical Hacking expert who held the audience in thrall during his address. The Winners of the Awards under Tech Savvy 2009 were given away by Mr Fadia.



Mr. S. P. Singh, Deputy Director - IIMP, represented Indira Group of Institutes at the seminar on Higher Education hosted by Indian Merchants' Chamber, Mumbai.

"Dhruv" Conquered

The Indira Way - Wave Of The Winners

Indira Institute of Management, Pune were declared winners of DHRUV-09, Annual inter-college event of Pune University's MBA Department, held from 13th to 15th January '09. This is the second time in three years that Indira Institute of Management has won the Coveted Rolling Trophy of DHRUV.

IICS visits industrial unit for first hand study

The students of Indira Institute of Career Studies, visited the Pune unit of Garware Wall Ropes Ltd. a leading provider of applications based solutions for fishing, shipping, sports and infrastructure projects worldwide They familiarized themselves with the manufacturing process right from procurement of raw material to packaging of the product to dispatch. Incorporated in 1976, Garware Wall Ropes was promoted by Garware Filament Corporation and Wall Ind. Inc. US

'IndiaPreneur'- Business Plan Competition at Indira School of Business Studies

Indira School of Business Studies(ISBS), Pune, hosted a national level Business Plan Competition on 9th March and witnessed participation of over 130 Management and Technical Institutes across the nation.

The objective being, to allow students to showcase their activities in entrepreneurship and spread the spirit of entrepreneurship to broader sections of the community

Eight teams reached the finals on 9th March were IIT-Delhi, IIT-Roorkee, KJ Somaiya-Mumbai, PUMBA, TAPMI-Manipal, SIOM-Nashik, Indira Institute of Mgmt.,Pune, SCIT-Pune.

The finals were conducted in the presence of eminent personalities such as Mr. Jitendra Tanti- CEO, Suzlon Infrastructure Ltd, Mr. Vilas Chitnis-CEO, Control and Systems Pvt Ltd, Mr. Rahul Patwardhan-Vice Chairman and MD- India Co-Ventures, Mr. Satish Kataria-VP, Venture Capital Division of Religare Ltd., Dr. Dilip Sarwate-Certified Management Consultant and Academician.

The event was presided over by Mrs. Tarita Mehendale Chairperson, Indira Group of Institutes, Mr.Chetan Wakalkar- Group Director, Indira Group of Institutes and Dr. Renu Bhargava-Director, Indira School of Business Studies.

A very encouraging aspect of all presentations was a very strong awareness amongst the youth for Corporate Social Responsibility and initiation of such enterprises that regarded a greener pollution- free environment as particularly important criteria in the processes within the life cycle of every industry.

This event was supported by IndiaCo Ventures Ltd, National Entrepreneurship Network and CII-Yi Pune Chapter.

Curious 2009 - National Level Case Study Competition

CURIOUS' 09- A National Level Case Study Competition for Post Graduate, Management Students was hosted on 7th Feb 2009. The live case, written by renowned author and consultant Dr. D.M. Sarwate, inspired by the incredible true life experiences of entrepreneur- Mr. Sunil Zende and his budding enterprise 'Parvati Farms Private Ltd'.

140 Participants from over 70 renowned management institutes from all over India participated in this hugely awaited event that offered the students a platform to showcase their knowledge,talent and competence in solving issues presented in a Case study format.