Vice President's Secretariat

Indian Corporate Sector has to Reform, Perform and Transform to benefit country and people: Vice President

Corporate Social Responsibility norm is a laudable initiative

Presents Mint’s Corporate Strategy Awards

Posted On: 23 MAR 2018 9:04PM by PIB Delhi

The Vice President of India, Shri M. Venkaiah Naidu has said that Indian corporates need to Reform, Perform and Transform so that they can open up new vistas of global opportunities which would in turn benefit our country and its people. He was addressing the gathering after giving away the Mint’s Corporate Strategy Awards, in Mumbai today. The Governor of Maharashtra, Shri C. Vidyasagar Rao, the Minister for Water Resources, Maharashtra, Prof. Ram Shankar Shinde and other dignitaries were present on the occasion.

The Vice President said that it is good to know that corporate and media are converging with the larger aim of furthering the cause of the drivers of the economy. He further said that Corporate Governance is one key element in improving economic efficiency and growth as well as enhancing investor’s confidence. From the Kautilya of the ancient Mauryan Kingdom to the modern corporate empires, the issues of governance have always engaged the attention of the rulers and other stakeholders, he added.

The Vice President said that in recent times, corporate governance in India has been in the news for reasons more negative than the positive ones. He further said that these episodes in his view are a kind of churning from which all the stakeholders of corporate governance need to draw right lessons for transforming our corporate governance norms at par with the best in the world. This is the need of the hour when we as a nation are keen to draw out the best of our economic might given its acknowledged potential.

The Vice President said that adherence to good corporate governance practices will help companies improve the confidence of domestic investors, reduce the cost of capital, enable good functioning of financial markets and ultimately induce more stable sources of finance. He further said that shareholders, Board of Directors and managements are the key constituents of corporate governance. The three major aspects of corporate governance are accountability, transparency and equal treatment of all shareholders, he added.

Following is the text of Vice President's address:

" I am delighted to be amidst you to present Mint’s Corporate Strategy Awards. I congratulate the winners, who have been selected by a distinguished jury.

It is good to know that corporate and media are converging with the larger aim of furthering the cause of the drivers of the economy.

I am pleased to know that this evening’s The Mint Corporate Strategy Awards - 2018 are a result of a year- long preparatory work based on an elaborate methodology for identifying the most qualified winner companies in the four categories namely – Classical, Adaptive, Shaping and Renewal. Before I venture to share my thoughts on the issues of corporate governance, I wholeheartedly compliment the winners of these Awards and also The Mint for their commendable initiative.

Following liberalization and initiation of various reforms, the role of the corporate and the private sector has expanded significantly in India. The private sector is contributing immensely to the growth of Indian economy, which has become the fastest growing economy and well poised to achieve a GDP growth rate of 7.3 per cent in 2018-19.

While observing that the economy saw a ‘temporary dip’ in the last two quarters of 2016-17 and the first quarter of 2017-18 due to demonetization and disruptions relating to implementation of GST, the World Bank said the economic activity began to stabilize since August last year and expected to clock a growth rate of 6.7 per cent this year.

With, India’s macro-economic fundamentals remaining robust, the country ranks among the top two emerging market performers in the FDI Confidence Index. UNCTAD too rated India as one of the world’s favourite FDI destinations.

With India turning into an attractive destination for foreign investments and the government’s push to the manufacturing sector through ‘Make in India’ programme, it is believed that this sector has the potential to reach US$ one trillion by 2025.

As the global economy is looking up, India should take advantage of the global conditions to further spur the growth.

With over 58 per cent of rural households dependent on agriculture, the government has taken many initiatives with a view to doubling the income of farmers by 2022. One of the biggest challenges is to bridge the urban-rural divide and I feel the corporate sector should play a bigger role in closing this gap, particularly in education, health and skill development sectors.

While liberalization, digital revolution and reforms like ease of approvals and ease of doing business seek to cut down red tape and help promote growth of the corporate sector, ironically some unscrupulous individuals and companies are trying to misuse the system and indulge in fraudulent practices. Of course, some dishonest officials also collude and become party to such unethical practices.

Corporate Governance is one key element in improving economic efficiency and growth as well as enhancing investor's confidence. Corporate governance involves a set of relationship between a company's management, its board, its shareholders and other stakeholders. Good corporate governance should provide proper incentives for the board and management to pursue objectives that are in the interests of the economy and its shareholders and should facilitate effective monitoring. Effective corporate governance system, within an individual company and across an economy as a whole, helps to provide a degree of confidence that is necessary for proper functioning of a market economy.

Corporate governance is only part of the larger economic context in which firms operate that includes, macro-economic policies and the degree of competition in product and markets. It also depends on the legal, regulatory and institutional environment. In addition, factors such as business ethics and corporate awareness of the environmental and societal interest of the communities in which a company operate can also have an impact on its regulation and its long-term success.

From the Kautilya of the ancient Mauryan Kingdom to the modern corporate empires, the issues of governance have always engaged the attention of the rulers and other stakeholders. Kautilya believed that the happiness of the King depends on the happiness of the people. He propounded that the King and his ministers must follow a strict code of discipline and always act in the best interest of their subjects. In the present corporate world we know who are the kings, their ministers and the ultimate subjects. What follows from Kautilya's analogy is that all of them shall follow certain discipline and be guided by the interests of the shareholders.

At the time of Independence, India had an operational market, an active manufacturing sector and a host of well developed British derived corporate practices. From 1947-91, we pursued socialist industrial and commercial policies like banks nationalisation to make the state the primary provider of debt and equity capital for private enterprises. The post 1991 general economic liberalisation marked the beginning of the emphasis on corporate governance norms. This was catalysed primarily by the growing need for the capital by the companies and the formation of SEBI.

Though corporate governance norms are essential to the proper working of a company, it took us a fair amount of time to bring it to the forefront of the policy agenda. These corporate governance norms kept evolving ever since the Confederation of the Indian industry (CII) first came out with the Desirable Corporate Governance : A Code in 1998. Subsequently, the Birla Committee, the Naresh Chandra Committee, the Narayan Murthy Committee, Dr. J. J. Irani Committee, etc. made several recommendations resulting in the evolution of corporate governance norms as they are today. Incorporation of Clause 49 of the Listing Agreement of the Stock Exchanges by the SEBI based on the recommendations of the Birla Committee is considered a landmark reform in corporate governance. The coming into being of the Companies Act, 2013, is the latest in this process of evolution of corporate governance norms dealing with the relationship among the shareholders, the Board of Directors and the management.

In recent times, corporate governance in India has been in the news for reasons more negative than the positive ones. These episodes in my view are a kind of churning from which all the stakeholders of corporate governance need to draw right lessons for transforming our corporate governance norms at par with the best in the world. This is the need of the hour when we as a nation are keen to draw out the best of our economic might given its acknowledged potential.

The degree to which corporations are wedded to the basic principles of good corporate governance is an increasingly important factor for investment decisions. Of particular relevance is the relation between corporate governance practices and the increasingly international character of investment. International flows of capital enable companies to access financing from a much larger pool of investors. If the countries are to reap the full benefits of global capital market and if they are to attract long-term capital, corporate governance arrangements must be credible, well understood across borders and adhere to internationally accepted principles. Even if corporations do not rely primarily on foreign source of capital, adherence to good corporate governance practices will help improve the confidence of domestic investors, reduce the cost of capital, enable good functioning of financial markets and ultimately induce more stable sources of finance.

Corporate governance is more associated with the listed companies because there are many stakeholders in those companies who are all cannot become the part of the day to day management. The key constituents of corporate governance are shareholders, Board of Directors and managements. The three major aspects of corporate governance are accountability, transparency and equal treatment of all shareholders. The corporate governance, in a sense, as an ecosystem, is a subset of the larger economic, legal and regulatory ecosystem. These two ecosystems feed on each other which in turn impact the efficiency of resources utilisation and the outcomes.

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

This definition in my view has imprint of the Gandhian principles of trusteeship and the Directive Principles of Indian Constitution. Despite more than 20 years of concerted efforts to improve corporate governance standards in our country, several corporations are still far from meeting these norms. As we witnessed in recent times, even some of the most established and reputed companies have come under the scanner on account of certain flaws in the management and decision making processes that have come out in the open. I don't need to hold a candle for you, who are the veterans associated with the functioning of our corporate sector. I still would like to refer to some of the issues as I understand them.

According to the Global Financial Stability Report of the International Monetary Fund, corporate governance standards took a dip in our country between 2006 and 2014. You people would know better than me if this trend has reversed thereafter but the general impression is that our corporate governance systems and practices need to be further reformed in the wake of certain recent events in the corporate world.

India's distinctive corporate governance issues originate from the high percentage of family owned companies. In our country more than 1/3rd of the companies are controlled by one or more family members in concert with one another. Most family owned businesses are unable to discern that there lies a dichotomy between the business and the personal affairs of the family. Thus, decisions are often made to suit the family and not necessarily in the best interest of the firm. This is an important corporate governance issue to be resolved in such a way that family funds and corporate funds are not seen as the same as was revealed in some cases recently.

In our scenario, retail investors are more concerned about the material financial gains on their shareholdings instead seeking to be active participants in influencing the affairs of the company. There is also an issue of majority and minority shareholders with the former controlling the companies and not always guided by the interests and concerns of minority shareholders. Domination of founder shareholders in nominating or appointing Directors on the Board and even their removal is said to be the reason for weak Boards in our country. While the listing under Clause 49 is said to be a major governance reform, the ease with which the Independent Directors can be removed by an ordinary resolution is subverting the aims of this provision. Other corporate governance issues that need to be addressed include putting in place an effective succession planning, implication of cross holdings, ensuring risk management strategies and Board of Directors acting as agents of shareholders instead of discharging their duties as company's fiduciaries.

I understand that India's corporate governance standards and laws have been largely based on the Anglo-Saxon Model and taking queue from the Sarbanes Oxley Act of USA, even as the operational contexts are vastly different from one another. In the USA, the shareholding pattern is well dispersed while it is concentrated in a few hands in India. Fortunately, some of the recent controversies in India have been resolved quickly and without any serious damages but we need to draw right lessons for India Inc., to thrive.

As I said earlier, the corporate sector is a subset of the larger socio-economic ecosystem. When you draw your origin and sustenance from the broader system, you are supposed to sub-serve and further the cause of the larger organ. Listed companies thrive on a vast pool of hope and trust of the large number of shareholders. All the shareholders need to be treated fairly and equally without any discrimination. The well-being of the society depends upon creation of wealth for larger benefit than on the profit concerns of a privileged few.

Higher corporate governance standards need to be propelled by the larger ethical and environmental concerns as well. Climate change has emerged as a major concern which we cannot afford to ignore. Every investment decision sets in certain processes with demonstrated impact on the climate. So, environmental audit of corporate decisions is essential.

In our country, transparency and accountability in all matters of governance, including corporate governance need to be accorded top priority for ensuring credibility and enhancing the confidence of all the stakeholders including the shareholders. This applies more to constitution of Boards of Directors, performance evaluation of Directors, ensuring independence of Directors, compensation for Executives, succession planning, appointment and rotation of external auditors, putting in place a whistle blowing mechanism, etc., which are critical for effective corporate governance.

Corporate Social Responsibility (CSR) norm is a laudable initiative which India proudly shares with only a few other countries. This underpins the responsibility of corporations towards the larger society and this needs to be effectively executed on ground.

India is on the rise. For the new India to become a reality at the earliest, the corporate sector has an important role to play as a catalyst. This requires dynamic, innovative, credible, transparent, accountable, value based and enlightened corporate governance practices. We don't have many corporations with global presence. Given the size and the potential of our national economy, there is no justification for not having a much larger number of Indian companies with global presence. You need to Reform, Perform and Transform so that the Indian corporates can open up new vistas of global opportunities which would in turn benefit our country and its people.

Friends, in the end to sum up the way forward for higher corporate governance in my own way, I suggest a **SWEET PHILOSOPHY.** This means:

Segregation of ownership and control

Wealth creation of which profits will be a by product

Efficiency of decision-making and resource use

Ethical and environmental commitments

Transparency through accountability

In the end I once again compliment the winners of The Mint Corporate Strategy Awards 2018 and also The Mint for this initiative and for their painstaking efforts to inspire the companies to walk on the path of innovation and enterprise.

Thank You all for patient hearing.

Jai Hind!"

***

AKT/BK/RK

(Release ID: 1526292) Visitor Counter : 626

END