

Corporate Governance: An Art or Science?

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When I first heard of the term 'Corporate Governance', I thought that it was just another Management Jargon, making Common sense Complicated, as Boards and Directors were always there, ever since companies came to existence. But my own experience as Nominee Director in State bank of India Group for six long years and my present tenure in a new generation bank and couple of other companies as Independent Director has made me believe Corporate Governance is something more than what was existing in the Corporate world since the days of Controller of Capital Issues! This paper is an outcome of that encounter.

Evolution of Corporate Governance in India

Corporate Governance in India has evolved as businesses evolved and also with an attempt to stay on par with the International Standards set by various Apex bodies for different sectors globally. In India, the Origin of the Concept of Corporate Governance can be traced to the Company Laws, 1956. Again based on the Global developments in Corporate Governance such as Treadway Commission, Cadbury Committee, Paul Ruthman Committee, Greenbury Committee, Blue Ribbon Committee and Hampel Committee, the following major initiatives were launched in India:

- 1.CII Code on Corporate Governance (1998)
2. Birla Committee on Corporate Governance (1999)
- 3.Naresh Chandra Committee Report on Corporate Audit and Governance (2002)
4. Ganguly Committee Report on Corporate Governance (2002)
5. Narayana Murthy Committee Report on the Corporate Governance incorporating Clause 49 of Listing Agreement etc.(2003)

In fact Satyam Saga has really shocked the entire Corporate Governance scene in India.

Basel Committee on Banking Supervision, based in Switzerland has come out with lot of Corporate Governance, which is mandatory for banks around the globe including India. So also with adoption of International Financial Report standards in Indian companies including in Banks, our Corporate Governance standards will go up.

Essential Components of Corporate Governance

The following are considered elements essential for any Corporate Governance framework:

- i) Powers vested individually and collectively with different categories of Directors
- ii) Appointment and removal of Directors including at superseding of Board by Regulatory authorities.
- iii) Board's Independence and Executive Performance Monitoring.
- iv) Adherence to various compliance standards and its accountability
- v) Financial and Operations reporting
- vi) Audit Committee of the Board's authority
- vii) Risk Management

Performance of Boards

There are Boards that deliver! Of course there are warring boards with internal groups. In general the diverse perspectives of the Directors including their networking across the Industry and beyond brings perspectives to the efficient board functioning and its Performance. That's where the question whether Corporate Governance is an art or Science assumes importance. For larger part it is Art of management of the affairs of the Company and its various stake holders. Especially when the Directors with vested interest quarrel it's the skillsets of CEO that matters in problem solving and see that the agenda is not high jacked but at the same time get the business going. At the same time the success lies in system evolving scientifically without much scope for misinterpretation. That's where Corporate Governance is more of science !

By way of Conclusion

Basel Committee for Banking supervision advocates *Nirvana* in disclosure standards for banks by prescribing Market Discipline as a third Pillar of Basel Regulation Standards ,

beyond adequate capital requirements and Supervisory Review as other Pillars. I would rather advocate moving even beyond that to shift from External Regulations to Internal systems of controls and Risk Management for effective Corporate governance!

Bibliography

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