

## **SPECIAL ADDRESS ON CORPORATE GOVERNANCE AND BUSINESS SUSTAINABILITY**

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It is my honour to address you at this mega collaborative event of the Assumption University and SRCC. This conference is of great academic importance as you will be sharing the practices and challenges of Corporate Governance, in Asia. H.E. Mr. Abhisit Vejjajiva in his address has delved on the subject beautifully. I would like to share some of my view points on the evolution of corporate governance in India, some key elements of corporate governance, and corporate governance in my Company DSCL.

But before I begin, I would like to touch upon the reasons why this topic has gained such importance worldwide in the last few years. A few events shook the faith in the way large companies were being run. The dot com crises in early part of this century, the collapse of Enron and Lehman Brothers in the US, the Banking Crises in 2008, and the fall of Satyam, a large software company in India, have all raised questions about the quality and adequacy of Corporate Governance. Coupled with this, the economic power that large MNCs wield, has led to demands for more transparency and better governance. As a result, legislative changes have been brought about worldwide, to prevent a repeat of such events.

In India, the first initiative on establishing a corporate governance code was voluntary, which was taken by the Confederation of Indian Industry (CII) in 1996. It constituted a Task Force to develop and promote a code for Corporate Governance. The focus of the Code was on the functioning, composition and structure of the Board of Directors, Finance & Accounts and required disclosures.

In 1999, The Securities and Exchange Board of India (SEBI), the Indian market regulator, appointed a committee under the chairmanship of Kumar Manglam Birla, to suggest measures to improve the standards of corporate governance of listed companies in India. This was the first formal and comprehensive attempt in India to evolve a 'Code of Corporate Governance'. The Committee drew heavily upon international best practices, including reports of the Cadbury Committee, OECD Principles of Corporate Governance, and the CII's Code of Corporate Governance etc.

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Recently, as you may be aware, The Companies Act 2013 has been passed by the Indian Parliament. The new law makes the provisions on corporate governance at par with the best international standards. It also has a provision on Corporate Social Responsibility, which makes India the first country in the world to legislate that companies must spend at least 2% of their profits on Social activities.

Let me cover 10 important aspects of corporate governance that needs special attention.

### **1. Tone from the Top**

Good governance cannot be imposed; it must emerge, but the tone has to be set by the Board of Directors and top management. Corporate environment or culture, within which governance occurs, is the most important factor contributing to the integrity of the process. Setting corporate values by which executives throughout the group will operate, should be one of the board's highest priorities. This translates and permeates into every relationship of a corporation, whether it be with investors, employees, customers, suppliers, regulators, local communities or other constituents.

### **2. Board of Directors Composition and Diversity**

Diversity on the board contributes to the success of the business. In other words, there is a fundamental economic reason why diversity is important: diversity of thought, experience, knowledge, understanding, perspective and age means that a board is more capable of seeing and understanding risks and coming up with robust solutions to address them. Businesses led by diverse boards that reflect the whole breadth of their stakeholders and their business environment will be more successful businesses.

### **3. Gender Diversity**

Increased female board participation can, of course, never be an end in itself; tangible benefits must be associated with such increased participation. The female perspective can be more insightful, and certainly different.

### **4. Selection Process**

There is a need to adopt a more professional, independent and transparent approach to appointing independent directors. It is important for companies to align their strategic priorities to skills required in the board room and accordingly seek candidates for nonexecutive positions on the board.

## **5. Induction Process of Directors**

Although companies have been slow to put in place robust orientation/induction and training programs for independent directors, it is time that this aspect is taken seriously. At a time when independent directors are being given additional responsibilities, it is essential for new members to understand the key issues facing the company. It is essential to educate the independent directors on the company's business model, industry, competitive landscape, as well as its recent history of successes or problems and the financial position.

## **6. Management Information Systems**

Information and its quality is another area of importance. The decision-making of the board is subject to the information available with it. A vast majority of boards depend largely on management reports and informal management discussions. Clearly there is a need to go beyond this convention. Board members will increasingly ask for more detailed information, to ensure better decision making.

## **7. Board of Directors Evaluation**

A further step for improving corporate governance is to take on the task of evaluating the performance of the Board. This would help improve effectiveness of individual members, and would help deal with strengths and weaknesses of a board. Methodologies for Board Evaluation are now available in management literature.

## **8. Succession Planning**

Succession planning can no longer be ignored, and it is an integral part of effective corporate governance. Poor succession planning and time-consuming executive searches can dampen investor confidence, often leading to falling stock values, and generating uncertainty. A credible succession plan must be in place at all times.

## **9. Risk Management**

An organization implements strategies in order to reach its goals. Each strategy has related risks that must be managed in order to meet these goals. Expertise in the area of risk management, therefore, is a fundamental requirement for effective corporate governance. The Board must ensure that appropriate risk management systems are in place to avoid excessive risk taking.

## **10. Crisis Management**

Developing an effective crisis management plan is a hallmark of good corporate governance. The source for a crisis may be events like an industrial accident, product failure, financial improprieties, sexual harassment allegations, or a hostile takeover. Any event that suddenly threatens a company's financial performance, reputation, employee retention or customer relations, has the potential to become a crisis.

Now, I will present some facts about my company DCM Shriram Consolidated Ltd. We, from the very beginning, have realised that good governance is key to success. My Great Grandfather and founder of the group Sir Shri Ram, had always believed in good values and high ethical standards, while conducting business. It was because of his vision and business acumen that DCM became one of the highly respected business groups in India. The Arts and Educational institutions run by us are amongst the best in Asia. Shri Ram College of Commerce and Lady Shri Ram College are the best examples of that.

We, at DCM Shriram Consolidated Ltd., follow international standards of corporate governance. Our board consists of 50% independent directors, we have regular meetings, and all major issues of the business are discussed in a free and transparent manner. Our Audit Committee, Remuneration Committee and Investors' Grievance Committee meet regularly to discharge the designated functions. We are setting up a CSR Committee. We strongly believe in fairness, transparency and disclosure, as the three pillars of Corporate Governance.

Like in most countries, in India too, many families have developed businesses from its inception. Initially, family businesses were set up with the internal funds. As the enterprises grew, the need of banks and outside equity became important. In general, the business families are viewed in high esteem, recognizing their role in the economic development of the country. In fact, we at DCM Shriram Consolidated Ltd. are conscious of the great responsibility reposed on us by society, and therefore act as trustees for all stakeholders.

At the same time the family business model poses certain challenges which are different from the ones faced by the Western world. The entrepreneurship and skills of the founder may not be replicated down the generations. Conscious of this fact, many family concerns have formed family councils, consisting of family members and external advisors, to help resolve issues in the best interest of the family and the company. Some families have even taken a back seat, and left it to non-family professionals to manage

the operations of a company. The challenge of course, is to ensure that good corporate governance and interest of the family are well balanced.

Finally Good Corporate Governance is not a static concept. It must continuously evolve, to meet the needs of business and shareholders, and most importantly the expectations of society. We need to remember that the downside of poor governance can be quite serious, not just in financial terms, but on the lives of a large number of stakeholders.

I do hope, ladies and gentlemen, that this conference would be highly enriching, will open up many new debates, and result in sharing of new ideas. I also wish the conference great success, and commend the efforts made by the Assumption University and the Shri Ram College of Commerce, for bringing this event to this great region of the world. I also hope many more academic collaborative activities take place between SRCC and Assumption University. I express my sincere thanks to His Excellency Mr. Abhisit Vejjajiva, the 27th Prime Minister of Thailand, Brother Martin, Brother Bancha, all the officials of the Assumption University, members of the Organising Committee, and all the distinguished participants, for their time and efforts for this conference.

Thank you.

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