

corporate governance

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Partnerships in India Leverage Strengths For Success

Local Business Commitment and Securities Regulator's Support Provide Strong Foundation for India to Move Forward with Corporate Governance

Through partnerships that the Global Corporate Governance Forum has been forging in India, local institutions are leveraging their resources to build capacity, broaden awareness, and achieve progress in gaining broad acceptance by businesses for corporate governance best practices.

Enhancing the corporate governance of businesses is an essential part of the foundation to support sustainable development. Numerous studies show that well-run companies perform better, which in turn leads to expansion, more capital investments, and jobs growth.

With help from the National Institute of Securities Markets (NISM), which was set up by the Securities and Exchange Board of

India (SEBI) for the advancement of training and research to support securities market development, and the Confederation of Indian Industry (CII), a not-for-profit industry-managed organization, the Forum launched director capacity-building programs, business-investor dialogues, and training workshops for journalists.

These partnerships and activities offer insights to steer the success of developing countries and emerging markets as they initiate their own programs to strengthen support for corporate governance, access expertise to inform the approach and efforts, and open doors to potential collaborations with business and government leaders.

The Global Corporate Governance Forum is a multi-donor trust fund facility located in the IFC's Business Advisory Services. The Forum was co-founded by the World Bank and the Organisation for Economic Co-operation and Development (OECD) in 1999.

Through its activities, the Forum aims to promote the private sector as an engine of growth, reduce the vulnerability of developing and transition economies to financial crisis, and provide incentives for corporations to invest and perform efficiently in a socially responsible manner. The Forum sponsors regional and local initiatives that address the corporate governance weaknesses of middle- and low-income countries in the context of broader national or regional economic reform programs.

Donors to the Forum include the IFC and the Governments of Austria, Canada, France, Luxembourg, the Netherlands, Norway, and Switzerland.



S. D. Shibulal, co-founder and board member of Infosys Technologies Limited, provides keynote address at Business Investor Dialogue in Mumbai in February 2008.

“Capacity-building in the area of corporate governance has assumed critical importance in India. This partnership between CII, NISM, and the Forum is especially significant. Each partner brings to the table its special strengths, which complement those of the others, to support the Forum’s efforts at capacity building in the area of corporate governance in India,” said Chandrajit Bannerjee, the CII director general.

Commenting on the partnership, Professor G. Sethu, who has been stewarding the NISM, as its Officer in Charge, said that “The various initiatives taken by the Forum, in partnership with the NISM and CII, to build capacity in the area of corporate governance are very timely. Investors and securities markets in India will benefit in the long run.”

India stands at the crossroads in its public and private sector efforts to advance corporate governance. (See box looking at the state of corporate governance in India.) The accounting fraud at the company Satyam Computer Services, in particular, raised new questions about the role and integrity of independent directors.

ADVISORY GROUP MEMBERS

J.J. Irani, Executive Director,
Tata Sons

S.D. Shibulal, Co-founder and Member
of the Board,
Infosys Technologies Limited

Pratip Kar, Consultant,
Global Corporate Governance Forum

Ravi Narain, Managing Director,
National Stock Exchange

T.K. Arun, Resident Editor,
Economic Times

J. Varma, Professor,
Indian Institute of Management, Ahmedabad

Satyam’s chairman resigned in January 2009 after admitting that the firm had falsified accounts and assets and inflated its profits over several years.

While some suggest that corporate governance is a “myth” in India, others point to signs of progress, including the Companies Bill of 2008. How India moves forward will be determined by, among other things, how it addresses the family ties prevailing in companies and the extent to which shareholders’ interests ultimately drive business decisions. The efforts of the Forum’s partners can go a long way towards helping India’s private and public sectors make progress with corporate governance.

CII, NISM, and the Forum express their gratitude to the Government of Japan for its support of the work on corporate governance in India.

Building Directors’ Capacity

In March 2009, the Forum joined forces with CII to expand the reach of a training program that helps strengthen corporate governance in India by building board directors’ capacity. Director training sessions, following on the Forum’s training-of-trainers workshops last year, are planned for Delhi, Mumbai, Kolkata, and Chennai in 2009 and 2010.

Originally created in 2007 by the Forum and NISM, the program reaches key players in corporate governance, including board directors, practitioners, academics, and the media. The Forum has helped to tailor the training program to the Indian market, building upon the expertise of its Private Sector Advisory Group. In addition, the Forum has assembled an Advisory Council dedicated to providing strategic guidance for the India project. (See adjacent box.) Throughout the implementation plan, the three partners have been working closely together.

“This program will play a key role in doing so,” said Pratip Kar, a former SEBI executive director who is working with the Forum. “Strengthening corporate governance has come into sharp focus worldwide following the financial crisis and, in India, the governance failure at Satyam. The Forum’s work in India for capacity building in corporate governance will help raise the bar for corporate governance. We need to take preemptive steps to the extent possible to avoid recurrence of corporate governance failures.”

The program’s training modules focus on both building directors’ leadership skills and helping them to determine the strategic direction for their companies. The curriculum is based on the Forum’s *Board Leadership Training Resources*, which emphasizes highly interactive adult-learning techniques that draw on participants’ professional experiences to inform discussions and activities.

As partners, CII provides access to its vast network of industrial and corporate communities while NISM fosters dialogue with the government and regulators to support the initiative. Interface with the regulator is of particular value. Moreover, the NISM, given its relationship with SEBI, provides a direct conduit for the project to the country’s listed companies. The Forum offers its global expertise, toolkits, and its PSAG network, among other things.

LESSONS LEARNED

- Collaboration with the right partners can provide reach and traction in the local market and thereby strengthen the Forum's initiatives.
- In a market the size of India, there are many institutions positioned for partnership. Care must be taken in identifying strengths and weaknesses and complementarity, and any risks relating to overlapping agendas must be accounted for. It is fundamentally important that partners be selected on a basis of informed advice, targeting those groups most closely aligned with program vision and objectives.
- The most effective partnerships tend to be those which are based on enlightened self-interest, that is, where the partners engage on the basis of their shared commitment, values and common interest in achieving real impact.
- Partnerships start with clearly defined goals and allocated responsibilities to maximize cooperation with a shared and clear destination.
- Each partner should play to its strengths, and through this, each can leverage the strengths of the others. Sharing contacts, for example, broadens marketing efforts' impact.
- The partnership should allow for periodic assessments to validate the success factors and eliminate barriers or misperceptions of each partner's role and obligations. Successes energize partnerships and inspire commitment.
- As partnerships accomplish projects that they targeted for collaboration, the partners should collectively rethink how they want to sustain, reduce or otherwise modify respective levels of engagement.

"The National Stock Exchange would like to see that all its listed companies maintain the highest possible standards of corporate governance; corporate governance helps companies, it helps investors and it aids market efficiency. The multipronged initiatives of the Forum, in helping build capacity in the area of corporate governance are therefore very welcome steps for our securities market. These will contribute to raising the bar for corporate governance."

– Ravi Narain,
Managing Director and CEO of the National Stock Exchange

"The National Institute for Securities Markets (NISM) has been taking initiatives with the active help of the Forum to improve the awareness of Corporate Governance issues in India. Media training programmes, the training for trainers programme, business-investor dialogues, and the director's training programmes, have been organized. The Forum's help and participation in these initiatives is well appreciated and SEBI is fully supportive of the effort."

– C.B. Bhave,
Chairman of the Securities Exchange Board of India



Sitting at the head table for the April 16, 2009 roundtable are (from left to right): Professor G. Sethu, Officer in Charge, NISM; Eugene Spiro, Senior Projects Director, Forum; Uday Kotak, Executive Vice Chairman and Managing Director of Kotak Mahindra Bank Limited (he chaired the meeting); Pratip Kar, Consultant, Forum; Marut Sengupta, Senior Director, CII; Dr. J. J. Irani, Executive Director, Tata Sons; and, Naheeda Rashid, Manager, UK and Europe, Hermes Fund Managers Limited

STUDIES ON CORPORATE GOVERNANCE IN INDIA INDICATE VARYING STANDARDS OF CORPORATE GOVERNANCE

Several studies and surveys have been carried out in recent years examining corporate governance in India. Results are mixed, some showing improving or strong compliance, others identifying important gaps in governance structures and modalities requiring ongoing attention.

For example, two surveys released in May 2009 and August 2009 by, respectively, Bain & Company* and KPMG** question the extent to which boards for companies in India understand corporate governance and the impact that this lack of understanding is having on the companies' outlook for growth.

Bain conducted its survey with the International Market Assessment of India and included more than 100 interviews with directors on the boards of 44 prominent Indian companies, across industries. They also interviewed regulators, commentators, analysts, and company secretaries. KPMG interviewed more than 90 persons -- including CEOs, CFOs, independent directors, and similar leaders -- between November 2008 and January 2009.

The surveys suggest that the boards of most big companies have little understanding of the business of the companies on whose boards the directors sit. Boards for Indian companies tend to have very limited or non-existent involvement in CEO and other top management successor planning. Further, directors seem to have little interest in formulating corporate strategy.

"By not involving the board in shaping strategy, Indian companies miss the opportunity to fully use the valuable experience board members bring to the table," write the authors Vivek Gambir, Ashish Singh and Karan Singh of the Bain report. "Globally, at the best managed companies, board members play a challenger's role on strategy — unlike on many Indian boards, where board members default to a passive listening role."

Management in only a few companies in India interact with board members regularly to seek

feedback on strategy. Usually, board members are not encouraged to question the management on various decisions. Management is also guilty of failing to send out board agendas well ahead of meetings. In the KPMG survey, 22% of respondents felt that the board, and particularly independent directors, never get the right information before the board meeting, nor do they get enough time to devote to the affairs of the board.

"India Inc. has generally been proactive in promulgating corporate governance regulations," the KPMG report said. "In doing so, a good balance has been achieved i.e. headway has been made, in terms of helping ensure that regulations are not stifling our entrepreneurial initiatives. From a purely regulatory standpoint, India compares favorably with most other developing and Asian economies as far as its corporate governance rules are concerned."

A study, partly funded by the Forum, by researchers N. Balasubramanian, Bernard S. Black, and Vikramaditya Khanna, which is based on a 3-year survey of 370 listed companies in India, identifies areas where Indian corporate governance is both strong and weak, and areas where regulation might usefully be either relaxed or strengthened. The findings suggest that compliance with rules is fairly good among the firms surveyed, but there is room for improvement. Better corporate governance is associated with higher firm value generally and for certain types of firms in particular. Certain aspects of corporate governance seem to matter more: disclosure and shareholder rights.

"On the whole," the researchers concluded, "Indian corporate governance rules appear appropriate for larger companies, but could use some strengthening in the area of related party transactions, and some relaxation for smaller companies. . . . India's legal requirements for board independence are sufficiently strict so that over-compliance does not produce valuation gains."

* Available at: www.bain.com

** Available at: www.kpmg.com

*** Available at: www.gcgf.org. Go to: Second International Conference on Corporate Governance in Emerging Markets

“Partnering with CII, in addition to our ongoing cooperation with NISM, is helping us to better reach key stakeholders to raise awareness about corporate governance, promote best practices, and help local companies improve their performance,” said Philip Armstrong, the Forum’s Head. “Through our collaboration, too, the Forum can better align our work to local needs.”

“The Forum’s work in India – in collaboration with NISM and CII – is focusing on the need to strengthen board practices,” said Bannerjee. “This will help in terms of increasing tangible and intangible value for companies. The Forum is providing valuable support to CII’s own efforts to raise the standards of corporate governance in India.”

Business Investor Dialogues

As part of the collaboration among the Forum, CII, and NISM, business-investor dialogues have been organized to facilitate discussions between the private sector, domestic and international investors, and SEBI. Issues explored in these dialogues include the effectiveness of various governance structures, the role of the board, disclosure, enforcement, and investor relations.

These events aim to identify challenges facing companies, offer possible measures for improvement, and provide an opportunity for local and international business leaders and investors to share views and experiences on the investment climate in India. The dialogues generate discussions and may result in policy recommendations for improving corporate governance from an assembly of local business representatives and investors. The partnership structure, as it involves the regulator, is particularly well-suited in this regard.

“The Business Investor Dialogue helped bring the industry representatives and the investors to a common platform, to share the views on the issues in corporate governance” said Professor Sethu of the NISM.

KEY OBJECTIVES OF THE DIALOGUE

- Identify areas of difficulty and offer possible measures for improvement
- Provide an opportunity for local and international business leaders and investors to share their views and experience on the investment climate in India
- Generate discussion and policy recommendations by an assembled local business and investor audience

Media Training

In July 2009, the Forum, as part of its ongoing cooperation with Thomson Reuters Foundation, and in partnership with NISM and CII, launched two media training workshops in India. These initiatives, as noted by Daiki Suemitsu, First Finance Secretary at the Japanese Embassy in Delhi, recognized that “the media plays an important role in raising public awareness and supporting enforcement.”

Nearly 40 journalists attended the sessions in either Mumbai or New Delhi, representing India’s general and business print, electronic, and online media. Through this learning experience, the participating reporters and editors enhanced their knowledge and reporting of such corporate governance issues as transparency and disclosure.

In sessions on governance best practices, accounting, and reporting principles, successful examples of investigative business journalism, and writing exercises, the journalists sharpened their reporting on the stories behind the numbers.

The faculty included V. Balakrishnan, Infosys’ Chief Financial Officer, who shared his experiences with governance best practices, and P. R. Ramesh, partner at India’s Deloitte and Touche, who spoke about accounting and reporting principles.



The Forum and Thomson Reuters Foundation held programs in Mumbai and New Delhi to build capacities among journalists.

“Asking well-researched questions, paying careful attention to the answers, and reading through a company’s disclosed information can reveal a lot about a corporation’s health and governance practices,” said one participant.

Professor Sethu of NISM feels that in India as elsewhere, “the media plays an important role in enhancing the standards of corporate governance. The media workshops on investigative journalism conducted by Forum in collaboration with NISM and the CII have been very well received by the participating journalists in the print and electronic media and these

will help in enhancing the quality of reporting.”

Overall, progress has been made as governance standards have been raised in India, however, much work remains to be done. The quality of governance among Indian companies covers the full range: Some companies (typically, though not only, the larger ones) have positioned themselves at the vanguard of governance reform. With other companies, compliance must be brought more proactively beyond the “boxticking” phase. This is the key objective of the Forum’s program.

ABOUT THE PARTNERS

Confederation of Indian Industry

The CII works to create and sustain an environment conducive to the growth of industry in India, partnering industry and government alike through advisory and consultative processes.

CII is a non-government, not-for-profit, industry-led and -managed organization, playing a proactive role in India’s development process. Founded more than 114 years ago, it is India’s premier business association, with a direct membership of more than 7,800 organizations from the private as well as public sectors, including SMEs and MNCs, and an indirect membership of more than 90,000 companies from around 385 national and regional sectoral associations.

CII catalyses change by working closely with government on policy issues, enhancing efficiency, competitiveness and expanding business opportunities for industry through a range of specialized services and global linkages. It also provides a platform for sectoral consensus building and networking. Major emphasis is laid on projecting a positive image of business, assisting industry to identify and execute corporate citizenship programs. Partnerships with more than 120 NGOs across the country

carry forward CII’s initiatives in integrated and inclusive development, which include health, education, livelihood, diversity management, skill development, and water. For more information, visit: www.cii.in.

National Institute of Securities Markets

NISM is a public trust established by SEBI, the regulator for securities markets in India. NISM seeks to add to market quality through educational initiatives. It is an autonomous body governed by its Board of Governors. An international Advisory Council provides strategic guidance.

NISM consists of six different schools as follows:

- School for Investor Education and Financial Literacy
- School for Certification of Intermediaries
- School for Securities Information and Research
- School for Regulatory Studies and Supervision
- School for Corporate Governance
- School for Securities Education

For more information, visit www.nism.ac.in.

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NEXT ISSUE:

Working with the Reuters Foundation, the Global Corporate Governance Forum is training journalists to increase and improve their coverage of corporate governance issues, helping them to look for warning signs and interesting angles.