Entrepreneurship
Professor C. Bhaktavatsala Rao
Department of Management Studies
Indian Institute of Technology, Madras
Corporate Governance

Welcome to the course on Entrepreneurship. In this session we will talk about Corporate Governance. When I was speaking about the linkage between entrepreneurship and employment, I mentioned that more jobs are probably lost because of bad management and bad corporate governance than by upgradation of technology or upgradation of science, I said that science and technology upgrades are positive in nature and they help people realises better results both as product and service offerings and as experiences and benefits for the consumers.

But on the other hand, bad management and corporate governance risk the existence of companies competitively or even survival of the companies, and therefore, we should focus on these aspects more. And throughout our journey, we have looked at several good management practices. In this session we will focus more on corporate governance. And try to understand what corporate governance means to us.

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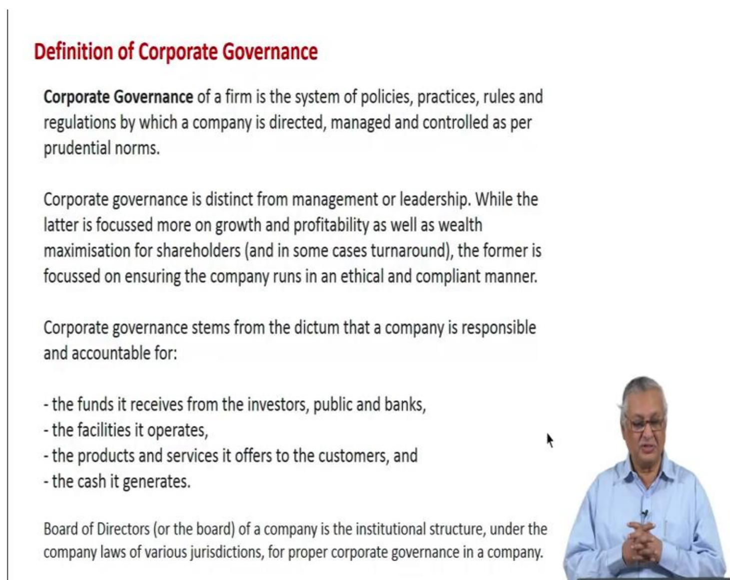

See, corporate governance is a system of policies, practices, rules and regulations by which a company is directed, managed and controlled as per prudential norms. The emphasis here is prudential norms, that is the resources have to be judiciously deployed and skilfully deployed

and must be done in a manner that the investor interests are protected, the employee interests are protected and the customer interests are protected.

Therefore, corporate governance recognises the fact that the funds the company receives, the operations the company undertakes or not meant to be done in completely independent manner. There are some constraints, the funds it receives from the investors, public and banks must be used appropriately.

Second, the facilities it operates must be operated as per good norms of productivity, safety, quality, environmental compliances, worker health. Products and service, it offers to the customers must be the promises the company makes and should be of high quality and the cash it generates must be conserved within the context of the business while reinvesting but also in redeploying.

So, to be able to do that at a very macro level, the institutional structure is the Board of Directors. The board of directors of the company is the agency under law as also under business practice to ensure that a company conduct itself as per the good norms of corporate governance.

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Corporate Governance is a Global Issue

Not only corporates and national governments but also global multilateral bodies such as the Organisation for Economic cooperation and Development(OECD), the International Finance Corporation (IFC) and World Bank are concerned with corporate governance.

World Bank
World Economic Forum
OECD
Corporate Governance
IFC
Financial Stability Board
Basel Committee on Banking Supervision

Multilateral lending agencies believe that good corporate governance is essential for healthy growth of global financial markets

This matter of corporate governance is a global issue; from OECD to IFC, from World Bank to World Economic Forum all organisations are interested in corporate governance because the way financial markets operate, the way global liquidity operates, the way funds flow from one jurisdiction to another jurisdiction is dependent on corporate governance.

And if a country or if a set of firms in a country or across countries operate with poor corporate governance, lot of financial turmoil can take place in the capital markets. Therefore, multilateral investment institutions are very keen on having good corporate governance as one of the guiding principles in their fund deployment across jurisdictions.

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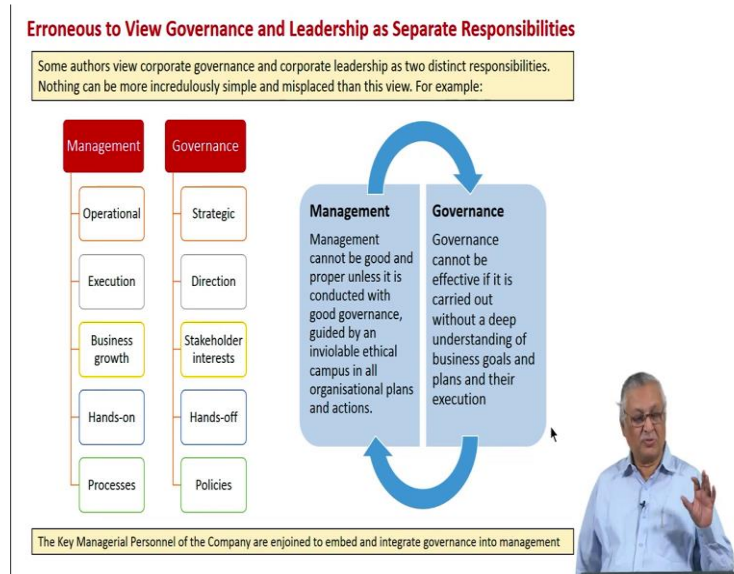

So, what is the difference between management and governance? Many times, people see these two things are separate. I would say that while management has got certain roles and while government has got it certain roles, we cannot see them as to distinct aspects and say that one is responsible for management. For example, CEO and below is responsible for management and CEO and above is responsible for governance, it does not work that way.

Operations have to be part of strategic plan; execution has to be the part of the overall direction of the company. Business growth has to take place with stake holder interest in mind, while being hands on in undertaking operations; one should also have the macro view of how things are being done. Processes have to be there, but they have to be done within the overall set of policies.

So, if you look at certain aspects of governance and certain aspects of management, we will see these are interrelated rather than two separate limbs of an organisation working. Therefore, governance requires deep understanding of the business. A dollar invested in a company is not same as dollar invested in another company. One, the board of directors should understand the context in which the business gets undertaken.

Similarly, management cannot be good unless the ethical compass is understood by the management. That yes, I cannot take a vendor unless he signs a code of conduct, unless he commits himself not to bribe or not to get bribed by anybody. So, management and governance are closely related and the key management personnel of the company or the set of people who are enjoined to embed an integrate governance into management.

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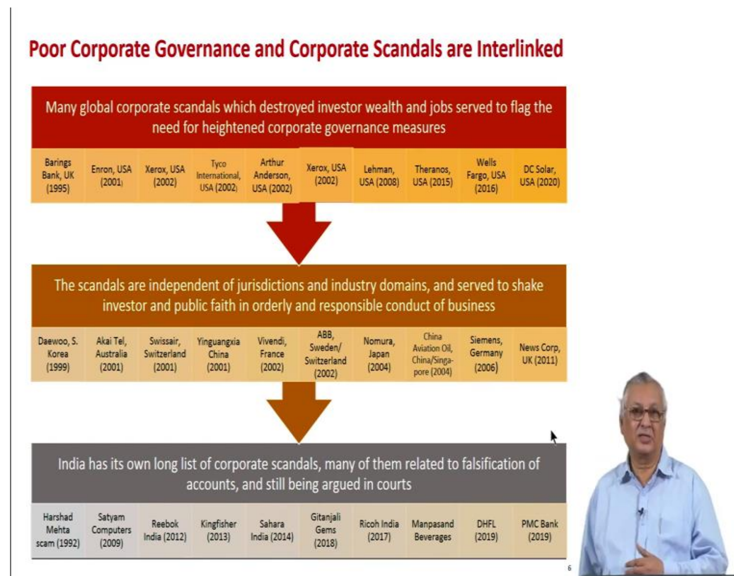

Poor corporate governance and corporate scandals are interlinked. We have in business history across nations, across jurisdictions, several corporate scandals and corporate collapses that have occurred because of poor corporate governance and this gives only a few companies, global based on US jurisdiction, ex-US various other jurisdictions including Switzerland, Sweden, France, South Korea and within India.

So, you can easily, you can easily summarise that poor corporate governance is not a national phenomenon, it is a global phenomenon. And corporate scandals can occur anywhere in the world and despite the best kind of the relation. So, as I would talk about finally, self-regulation is the best form of corporate governance.

But for us getting to a self-regulation mode, we should understand what corporate governance is and why corporate governance is very important and why corporate governance should be talked about for a start-up which is going to start its business? Why is it important?

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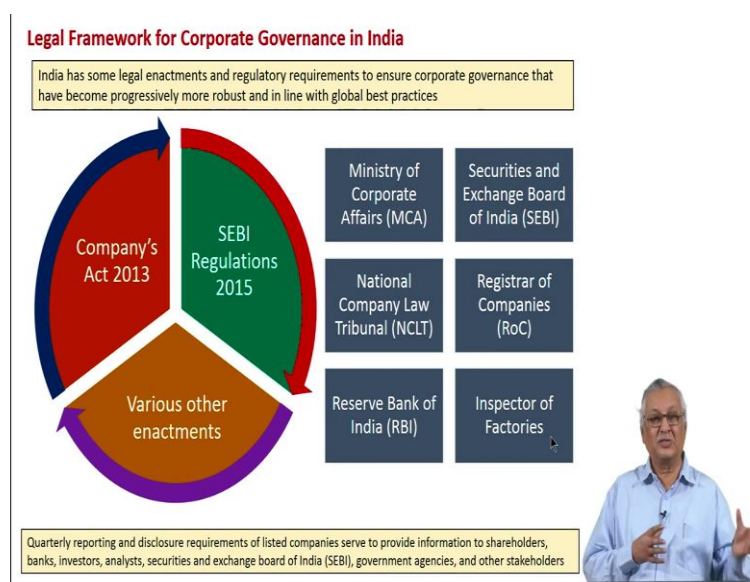

But before that again as I said with human resources, established firms and the way of managing established firms offer certain insights which are relevant for start-ups and private limited companies which are not bound by normal loss of corporate governance or normal regulations of corporate governance.

We have for established companies and even for private companies three regulations; one is companies act 2012, similarly SEBI regulations 2015 and various other enactments and several agencies which are responsible for legal and regulatory compliance of the companies.

And these are made possible through quarterly reporting and disclosure requirements of listed companies and a responsibility to ensure that all material developments are shared with the stock exchanges in a very-very timely manner because there should not be insider trading in the stocks of the company.

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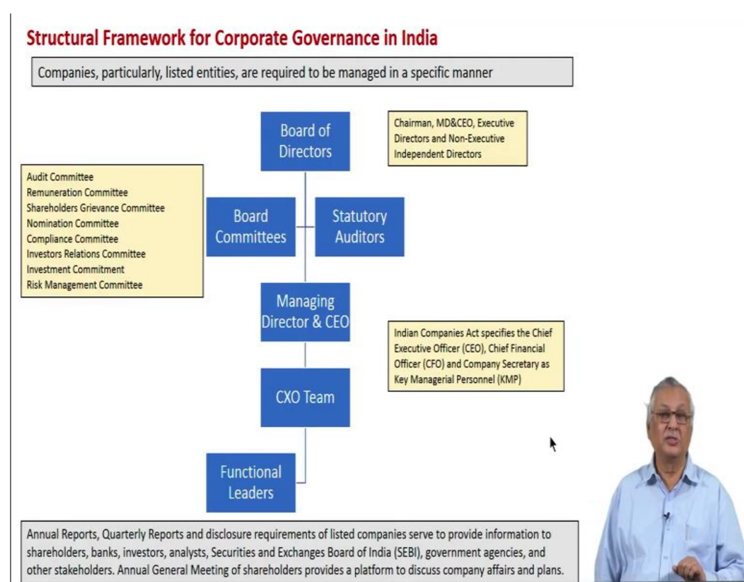

So, when you look at the structure of a company, we have board of directors and board of directors is supported by two sets of agencies, one, board committees because board of directors is a platform which not full-time platform, people meet and then again disperse and then probably they have other boards to look after.

So, board of directors typically have several board committees which specialise in certain areas and it is expected that certain listed companies of certain scale should have mandatorily certain committees such as an audit committee, remuneration committee, nomination committee, etcetera. Besides that, we also have the practice of having other committees which look at certain aspects of board governance.

Board of directors is very much dependent on external statutory auditors to provide a fair and objective view of the company's finances and operations. Then very much integral to board of directors is the managing director and the CEO, he or she is the board of directors and responsible for the governance.

He or she is outside the board of directors in day to day management ensuring the strategic and tactical direction of the company and ensuring that the governance, and ensuring that the governance and management are done in a harmonised manner. Then we have got the CXO team, the chief commercial officer, chief operation officer, etcetera, etcetera. And below them we have the functional leaders.

Under the Indian Companies Act, chief executive officer, the chief financial officer, the company secretary are termed as the key managing personnel of the company. And they are responsible for providing the broad list of information requirements, disclosure requirements and making sure that the investors are provided with this kind of information on a regular basis.

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Board of Directors

The Board of Directors of a company is the legally mandated top executive structure entrusted with corporate governance of the firm, along with other functions and responsibilities.

As per the Companies Act, every company shall have a board of directors consisting of individuals as directors, the minimum number being three for a public company, two for a private company, and one for a One Person Company

A listed company company with small shareholders not less than 1000 shall have one director elected by them, taking the number of directors to at least four

The maximum number of directors allowed is fifteen, unless a higher number is approved by the shareholders through a special resolution

The board may comprise a fulltime executive (or non-executive, part-time) chairman, a fulltime (ie., whole-time) managing director or other directors, and non-executive (part-time) independent or non-independent directors

Annual Reports, Quarterly Reports and disclosure requirements of listed companies serve to provide information to shareholders, banks, investors, analysts, securities and exchanges board of India (SEBI), government agencies, and other stakeholders. Annual General Meeting of shareholders provides a platform to discuss company affairs and plans.

And what is board of directors? Board of directors is the legally mandated form which will comprise a certain number of directors, it depends on the size of the company, it could be four or it could be fifteen. And the directors could be part-time or whole time. But the general expectation as per law is that if the chairman of a board is a full-time chairman that is he is always an executive chairman, then at-least fifty percent of the directors should be independent.

When we say directors should be independent, they should not have had any material pecuniary relationship other than that of sitting fees and expenses related to the independent directorship drawn from the company because the idea is that if you have a strong material pecuniary relationship with the company, your ability to take objective independent view is biased. Therefore, there is some definition of independence of directors, there is also a definition of non-independence of directors.

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Reforms in the Board Composition

Under the law the boards do have considerable powers of governance; in practice boards could also become pliable instruments. The Companies Act and SEBI have therefore mandated successive improvements.

- A public listed company with an executive chairman should have at least 50 percent of the directors as independent directors; in the case of non-executive chairman the number shall be not less than one-third
- Imposed limits on the number of directorships an individual can hold; reduced to not more than ten companies; proposed increase in the number of minimum directors to six
- Established non-qualification criteria for holding the post of director, and enlarged the responsibilities and accountabilities of directors, especially the independent directors
- Required the appointment of a whole-time director (usually the managing director), company secretary, and chief financial officer as the key managerial personnel
- Mandated the appointment of at least one independent woman director on the boards of top 500 listed companies in the interests of diversity and better decision making
- Most importantly, proposed separation of the role of chairman and managing director – implementation currently deferred

The Government and SEBI progressively enhanced disclosure requirements, and elaborated on the roles and responsibilities of directors in the interests of corporate governance. A test for independent directors is also proposed.

These are some of the other details of the things. Progressively in India, the disclosure requirements as also the governance requirements have been tightened. For example, there have been requirements that every board should have a woman member on the board because gender diversity on the board improves performance as per the businesses structure that is available.

On the other hand, if you do not have woman directors, it is likely that certain aspects of business would not be done the way they ought to be done. We have had the case of a global beverages company which had woman CEO undertaking different kinds of product diversification by virtue of the fact that as a woman she brought in to the company's ecosystem, certain different ways of looking at the food and beverages industry.

Therefore, gender diversity is always helpful given their special skills and their ways of looking at things. Similarly, the separation of chairman and managing director role, that is another hot contentious issue, in fact, it was supposed to be implemented from 2020 but that has been deferred by a year or two, it is been proposed that every company should have a different chairman and different managing director, so, that there is enough check and balance system that is ingrained in a company.

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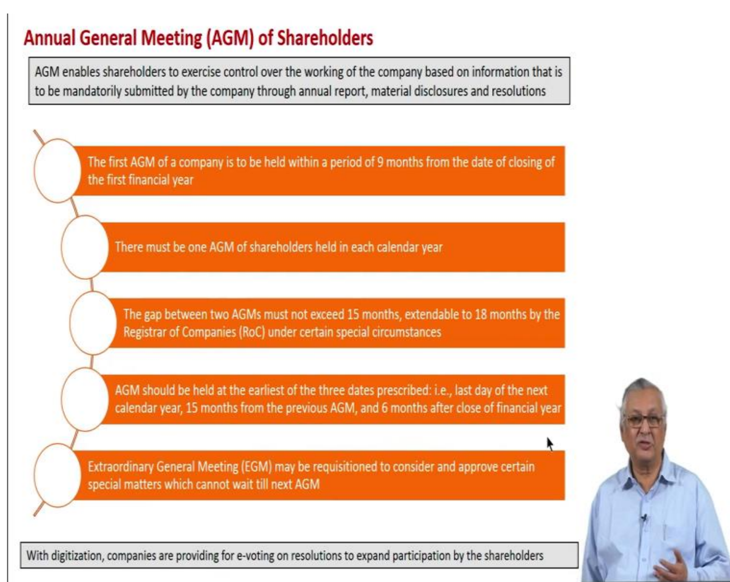

Then we also have annual general meeting of shareholders which must be help every year and there should be certain gap between AGM but also there should not be a gap more than fifteen months between two AGMs and whenever certain aspects of prescribed nature have to be approved, there should be approved in an extraordinary general, general meeting of the shareholders. So, these are the expectations of the shareholder participation in the organisational activities.

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The role of board of directors has been researched very much and Harvard Business Review has come out with several analyses of what should be the board of director's purpose and

what should be the capabilities of the board of directors. So, one article refers to the need for directors to be financially savvy, ability to appeal on capital structure, financial gearings, sustainability of cash flows and risk envelop of the company.

And financially savvy director need not be a master accountant but he or she should understand the financial structure of the company, how geared the company is and whether the company is able to withstand the vicissitudes of the business. Similarly, the ability to understand the strategy that is adopted in an industry, the strategy that needs to be adopted by the company and also understand the mega trends that are shaping the industry and which have an impact on the firm.

That should be the strategic capability of the director. And the ability to blend seamlessly with other directors who come from different backgrounds and also blend with the CXO team and also the CEO. That becomes an important relational skill. And board of directors also requests lot of administrative activities that need to be under, understood and undertaken which requires lot of administrative capability, the process orientation.

And finally, cultural ability to carry the responsibility and this stature and the wisdom that comes as a director on the board seamlessly, and make sure that the eco-system is not seen as harsh but is observed as a day to day responsibility in the organisation's function. Therefore, they are creating a new culture in the organisation by being on the board, prescribing corporate governance for the rest of the people. So, this is an article which I have referred to, which you can refer to as you go forward in your studies.

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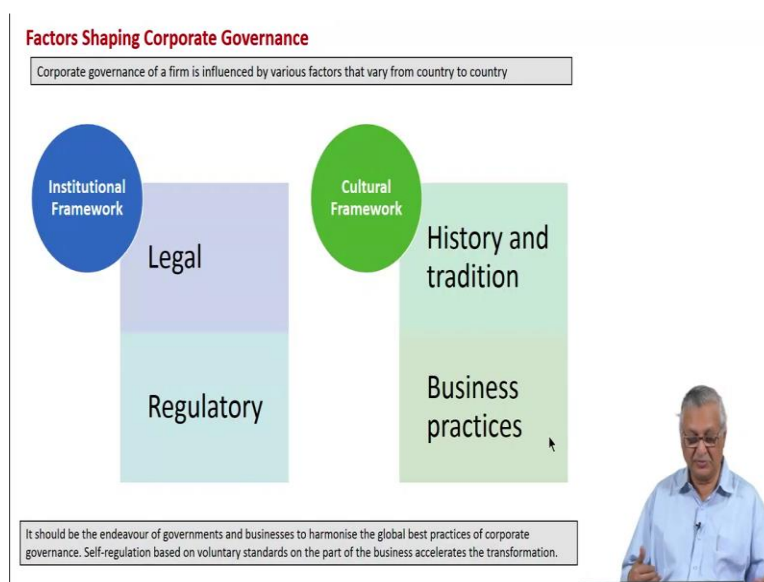

So, the institutional framework is legal and regulatory but there is also a cultural framework which is history and tradition and business practices. So certain businesses are done in certain ways by certain types of companies in certain regions. So, while legal and regulatory aspects are there, there are certain traditional aspects and how do we match these cultural aspects of doing business and how do we match the institutional requirements.

How do we adopt that? That is a challenge, and that is where the board functions in a kind of proactive manner because typically the director's function in different types of companies, therefore, they are able to bring best practices and make sure that this cultural and institutional integration takes place in a helpful manner.

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The Four Cancers of Corporate Mis-governance

Corporate governance is at the greatest risk when structures and processes are distorted by four 'cancers'

Corruption

Fraud

Greed

Deceit

Cronyism

Good and ethical behavior, individually and institutionally, is the basic foundation of good corporate governance

Greed is at the core of poor corporate governance and greed manifests itself in four ways: One is corruption, second is fraud, third is deceit and fourth is cronyism. When you have time and look at the cases that have been detailed in the earlier slide of corporate mis governance and corporate collapses, you will find that corporate governance not being on the right lines can be traced to any of these following four drivers of human mal behavior.

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Some Methodologies and Outcomes of Poor Corporate Governance

The incidents of the last several decades brought forth several disturbing methodologies and outcomes of poor corporate governance. The following is only an illustrative list of corporate malfeasance.

Inflated sales/profits and falsified accounts

Fictitious assets and/or asset inflation

Fake transactions and fake entities

Overexpansion and over-borrowing

Falsification and misreporting of accounts

Overstating of profits or understating of losses

Insider trading and share price manipulations

Related party transactions

Misuse of short and long term funds

Falsification of inventories

Unethical conduct

Unlawful activities

Good and ethical behavior, individually and institutionally, is the basic foundation of good corporate governance

And the methodologies which are adopted for poor corporate governance have been very creative from time to time. On one side, you have got operationally induced corporate governance that is inflated sales, profits, falsified accounts, fictitious assets or asset inflation,

fake transactions and fake entities, over expansion and over borrowing, falsification and mis-reporting of accounts, overstating of profits or understating of losses.

On the other hand, from a capital market or fiduciary point of view, you have insider trading, share price manipulation, related party transactions, misuse of short term funds and long term funds, that is misusing short terms for long terms goals and long terms funds that is term loans to meet your working capital requirements, falsification of inventories, unethical conduct and plain unlawful activities.

When you look at the bad companies that are being reported in day to day business media or newspapers you will find that there are cases galore of these kinds of heads. So, it is very important that as a company grows, as a start-up or as a private limited company even before it becomes a public unit company should understand the importance of corporate governance.

And make sure that the values and ethics are something which will govern operations right from the beginning stage that is the basis because on a positive side, we assume that every start-up will be a successful start-up and will soon become a publicly listed mega enterprise. We cannot have a transition period when a start-up or a private limited company will modify itself and become a virtuous well-run public limited company.

It is always better that the correct ways of functioning are imbibed and embedded from day one which is that is why this corporate governance becomes an important issue as a matter of study and as a matter of guidance for start-ups as well.

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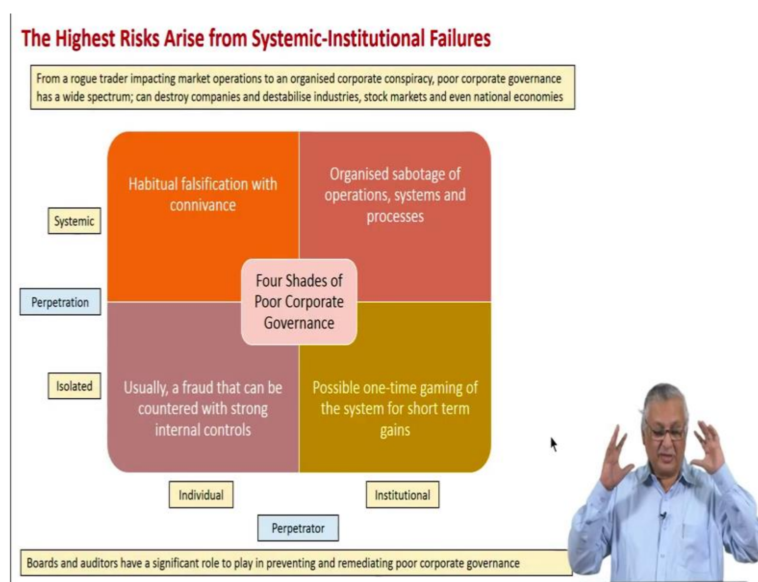

So, there are, if you really apply yourself and for every corporate governance issue there is a perpetrator, there is a method of perpetration. The perpetrator could be individual, there could be institution itself. The perpetration could be an isolated one-off event, it could also be systemic. So, if you go back a few decades, there was a case of a rogue trader, who did some very adventurous trades which could not be detected because the systemic controls were poor.

Or even if somebody saw, they saw the trader as bringing in huge amounts of revenue to the company so it was ignored the practices. So, it is an individual isolated case but such kinds of frauds can be counted with strong internal controls. Then there could also be isolated cases where institution says that I am going to take private equity or I am going to, going to the market, I need to maintain the same level of growth.

It is again a wrong assumption. These days nobody wants truth to be modified to be able to show a positive growth, everybody understands that the market has to have its ups and downs. So, a company which says boldly why it is going through a rough patch and therefore comes up with corrective actions is likely to be appreciated better than somebody who assures that yes, I am going to grow at any cost, at any point of time continuously.

So, positive possible one time gaming of the system for short time gains that is something, again it is not institutional, one time but the danger is that once you game a system, and you prove yourself to be successful, you tend to make this a systemic issue in the or a systemic

habit in the company that is where the corporate governance becomes eroded on a sustained basis which is dangerous.

Similarly, an individual with the blessings of the system does habitual falsification with connivance bad. Then of course the worst form which finally leads to corporate collapse is organised sabotage of operation systems process. So, the interplay between individuals and institutions and the interplay occurring sporadically or in a systemic basis that determines how serious the corporate governance issue in a firm or in a jurisdiction is.

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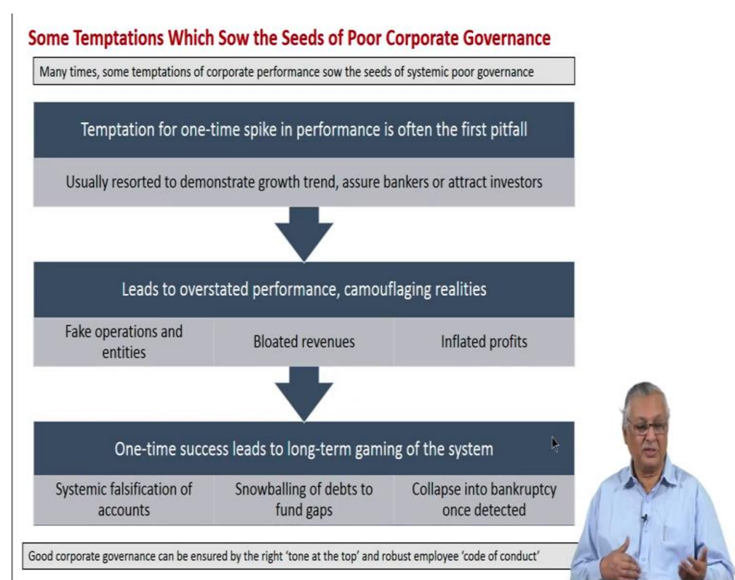

So, I have talked about this temptation which sow the seeds of poor corporate governance and how good managers and good leaders must resist these temptations and ensure that run on short-term profit does not take the damage to great heights.

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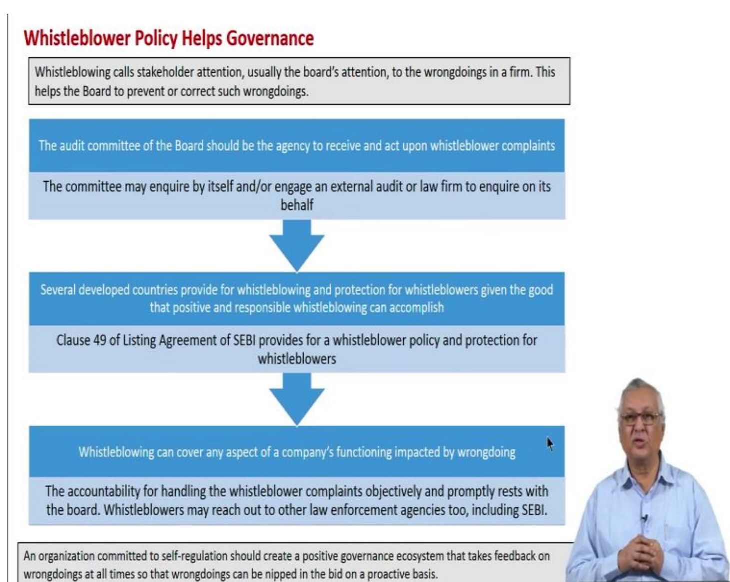

We also have in corporate governance systems Whistleblower policy. Whistleblower policy is a kind of shield provided to individuals and employees to report wrong things happening in the organisation, it could be a poor quality, it could be a poor operations or wrong use of company facilities or misuse of organisation's strategies, it could be anything or poor vendor management. Whistleblower policy helps escalate on ground realities to the notice of the board of directors with a view to have good governance.

And the accountability for handling the Whistleblower complaints is usually with the audit committee or the board of directors and they can also reach out to other law enforcement agents. One of the Whistleblower policy that occurred was with reference to one leading pharmaceutical corporation where the Whistleblower reached out to the US FDA and that resulted in a big turmoil in the company and changed the company's fate completely.

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Then we have got several principles which are laid down by G20, OECD for corporate governance. Basically, it talks about six areas. First, what is the basis for effective corporate governance framework? What are the rights and how will the shareholders should be treated equitably? How key operating function should be treated in a corporate governance framework. What is the role of stake holders?

What should be the rights and responsibilities of institutional investors, stock markets and other key intermediaries? What should be the disclosure and transparency policy of the company? And what should be the responsibility, responsibilities of the board of directors? OECD principles cover these six major heads and in each of these things, there are certain detailed principles.

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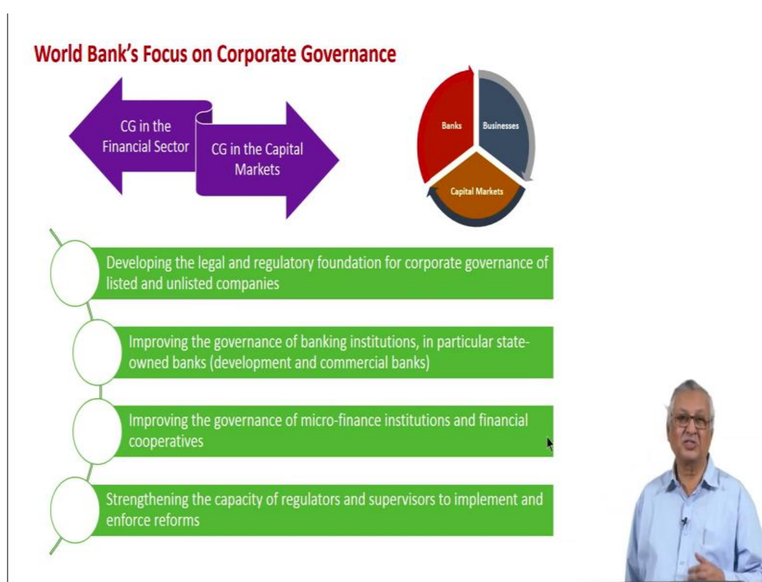

Similarly, World Bank in its focus on corporate governance talks extensively about financial sector and the corporate governance in the capital markets. And it covers banks; it covers businesses and covers capital markets. It talks about linking up with OECD principles and the whole idea of World Bank is to strengthen the capacity of the regulators and the banking system so that the funds are utilised in a proper manner.

And the huge amounts of aid, huge amounts of investments that are made by multilateral lending institutions or productively used. World Bank also looks at how micro finance institutions and financial cooperatives work in the system because there is also one key area of interest for World Bank. As can be imagine World Bank's focuses far more on banking system and financial system and capital markets whereas OECD principles are much broader and cover a whole gamut of institutions.

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OECD Principles of Corporate Governance I – The Basis

"The Corporate Governance framework should promote transparent and fair markets, and the efficient allocation of resources, consistent with the rule of law and support effective supervision and enforcement."

- Positive impact on overall economic performance, market integrity and enterprise incentives
- CG requirements should be consistent with rule of law, transparent and enforceable
- Roles and responsibilities of different authorities should be clearly articulated and in alignment with public interest
- Stock market regulation should support effective corporate governance
- Supervisory, regulatory and enforcement authorities should have authority, integrity and resources to fulfil their responsibilities in a professional and objective manner
- Cross-border cooperation should be enhanced through bilateral and multilateral collaborations

Principles of corporate governance should strike a balance between regulation for governance and enterprise for growth

OECD Principles of Corporate Governance II – The Rights and Equitable Treatment of Shareholders and Key Ownership Functions

"The corporate governance framework should protect and facilitate the exercise of shareholders' rights and ensure the equitable treatment of all shareholders, including minority and foreign shareholders. All shareholders should have the opportunity to obtain effective redress for violation of their rights."

- Shareholder rights for information from the companies and participation in the meetings should be ensured
- Effective shareholder participation in the key corporate governance decisions should be ensured
- Shareholder consultations, including between and with institutional shareholders, should be enabled
- All shareholders of the same series and class should be equally treated
- Related party transactions should be above board, protecting the interests of the company and its shareholders
- The interests of minority shareholder interests must be protected, including with effective means of redress
- Markets for corporate control (including takeovers and acquisitions) should be allowed to function in a transparent and efficient manner

OECD Principles propose an extensive framework for protection of shareholder interests in an effective manner.

So, in the next few slides I have talked about the OECD principles of corporate governance in terms of the bases, in terms of the rights and equitable treatment of shareholders and key ownership functions. Then about institutional investors, stock markets and other intermediate and other intermediary agencies including analysis and rating agencies. What should they, the rating agency's responsibilities are very high?

Similarly, the analysis responsibilities are very high because they are privy to lot of information and that information should be transparently projected and made available to the vast population of investors, banks, as also the retail shareholders. That is very important so corporate governance doesn't mean that only companies are involved in this. Corporate governance includes agencies who have these kinds of important functions.

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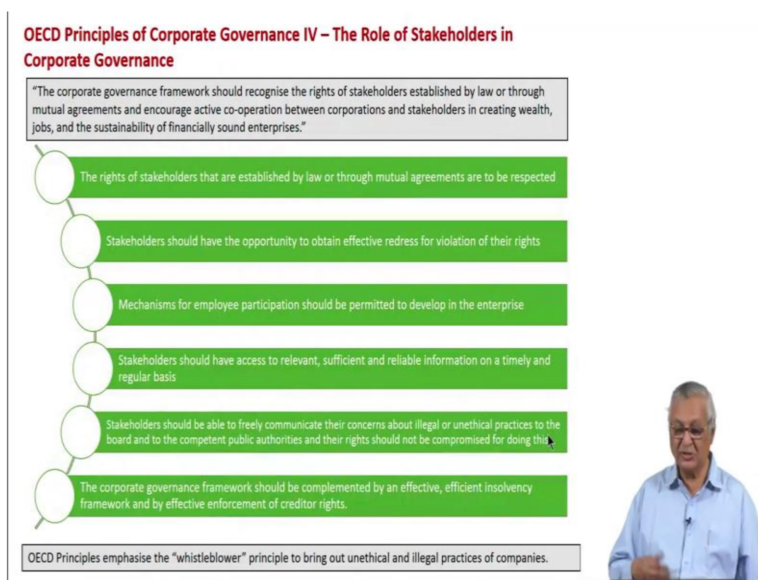

Then, the role of stakeholders in corporate governance – What are their respective rights and responsibilities. On what kind of access to information they should have.

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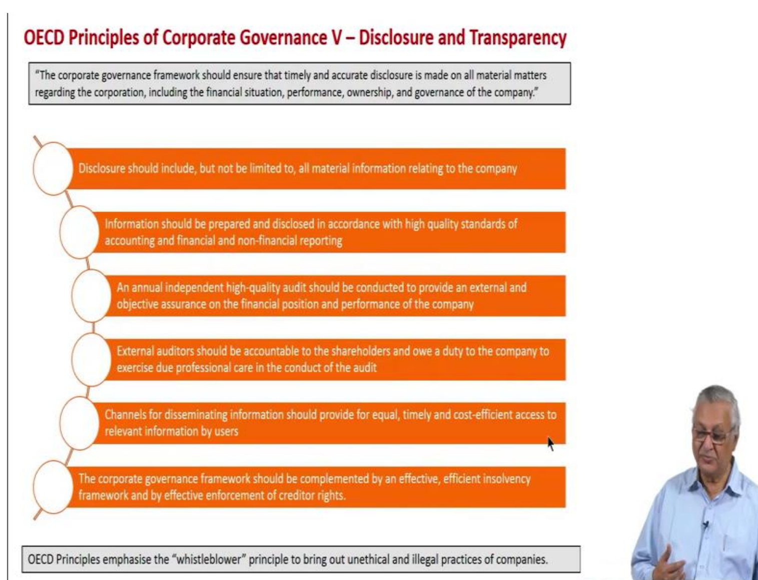

And what is the level of disclosure and transparency, what is materiality of a development? How do you define materiality? And what should be the channels for providing this materiality?

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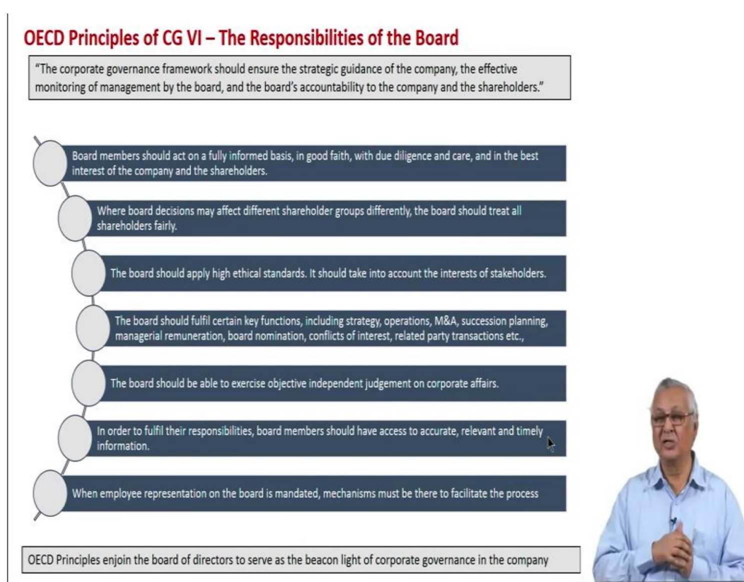

And what are the responsibilities of the board? When you compare the OECD principles with clause forty-nine listing regulations of India, we must feel really happy that most of the regulations have been taken care of in the Indian stock market regulations and if a company follows the regulations in letter and spirit, corporate governance would indeed be very high in our Indian system.

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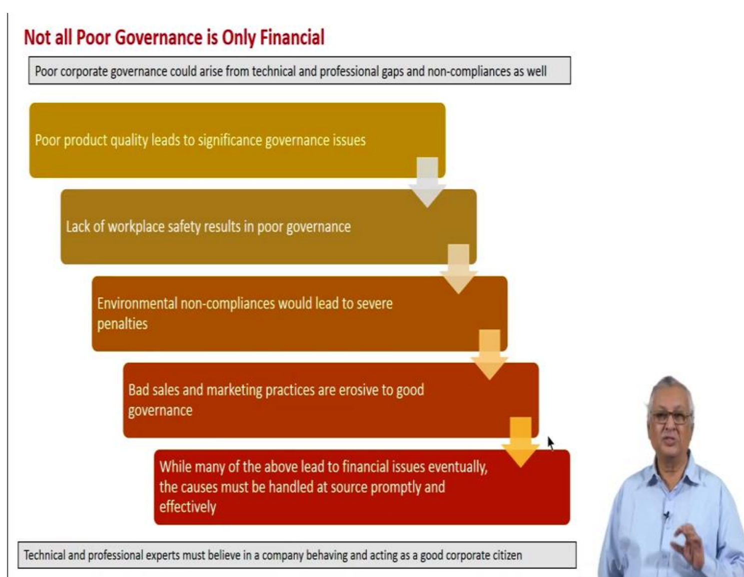

Again we have to understand that not all poor governance is only financial, if a company deliberately gives poor quality for its product, it is a governance issue in my opinion because you are bound by your contract with your customer to provide a product which is fit for the

purpose, which meets the specifications you have declared and the specifications based on which you have sold the product, therefore, poor product quality is mis-governance.

And poor product quality leads to recalls, returns, cover-ups and finally will have a financial impact. Mostly, financial impact is discovered and then corporate governance is flagged but it is very important that at an operational level, technical non-governance or professional non-governance is flagged so that it does not get translated into financial mis-governance at later date.

Therefore, we have to see corporate governance in a broader framework that is where what I said that management and governance are interlinked and there cannot be good corporate governance with bad management and there cannot be good management with poor corporate governance. Both have to be good and for that operational management has to be of high standard.

Similarly, if you do not have workplace safety, it is poor governance. Environmental noncompliance is poor corporate governance. Bad sales and marketing practices, poor corporate governance, we have in pharmaceutical industry these challenges, the medical council of India was seized out this matter, minister of corporate office seized out this matter. What are the ethical practices that should be adopted by pharmaceutical companies to market their products?

Similarly, any other aspect of functional operation, be it vendor management, be it equipment selection where there is no compliance to the professional requirements could lead to a corporate governance issue. Therefore, it is important that these are understood, these are controlled, these are flagged at the source, so that the overall financial corporate governance matters are handled in an easier manner, therefore, technical and professional experts must believe in the company acting as a good corporate citizen fundamentally.

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And to be able to be high end operational integrity, people competencies help. Competent professional, functional excellence doing things right that helps in having good quality, having good safety. Similarly, a firm's commitment on environment safety and health that would also give good corporate governance.

Certain functions such as procurements, sales, sales and marketing, they are required special attention to ensure that corporate governance is not eroded through certain managerial practices. Similarly, continuous training in ethics and compliance and monthly reporting to leadership, that reinforces corporate governance. And finally, the use of contemporary functions and processes through information technology, that also helps in corporate governance.

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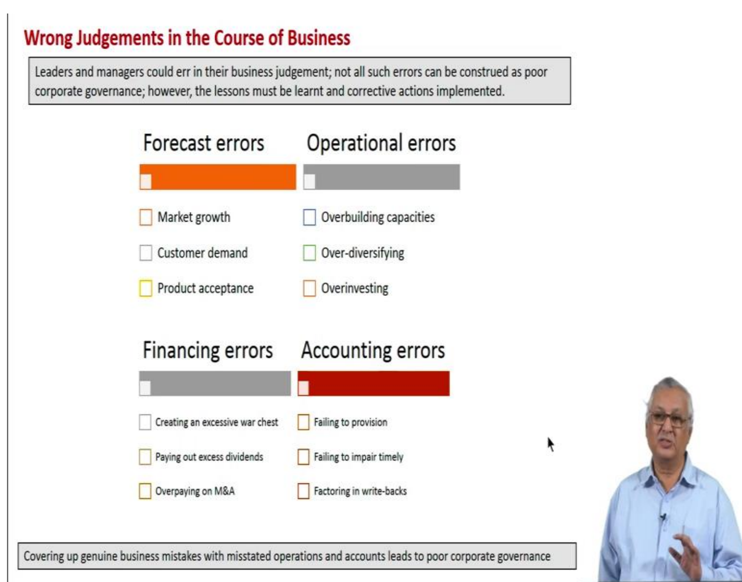

But we should also recognise that there will be some genuine errors in business. Not all decisions in business and operations can be fool proof, can be error proof. There can be errors in forecast. We may err in forecasting market growth; we may make a mistake in estimating the consumer demand. We may think that this product is going to be accepted and therefore, manufacture thousands of components as the pilot batch and find that not a product is sold. So, there could be genuine forecast errors, there could be operational errors.

Nobody would have imagined that there would be Corona Virus scare or there would be global liquidity issues, that oil prices would collapse by several, several dollars suddenly. So, there could be building up of capacities in anticipation of continuous growth, that cannot be called poor corporate governance. There could be some excess diversification compared to the core competency, that could be an operational error, there could be some more investing.

Similarly, in terms of financing, there could be errors, you may try to have war chest for acquisitions thinking that yes, opportunities are going to come up therefore, you may raise more finances than necessary, you may be very hopeful of the future and you may pay out excess dividends. You may over pay on M&A saying that it is important to have a globalised business therefore, any price that is to be paid has to be paid.

So, it is a judgement error. Then failing to provision, I talked about certain Telcos not being able to pay the AGR dues because they have not provided for, in fact, the one of the companies has gone on records saying that they should have actually provided for the AGR

dues, had they provided; there would not have been in this kind of situation. It's the judgement, error of judgement.

Similarly, failing to impair timely – When something does not go wrong and you have to take a call whether this asset should impaired or not impaired. Similarly, how do you factor the write-backs? That is also an accounting issue. So, covering up genuine mistakes will lead to corporate governance issues but admitting genuine business mistakes and finding out how to treat that through proper business process; that will shift the bad management errors to good management practices and eventually make the company more capable of becoming.

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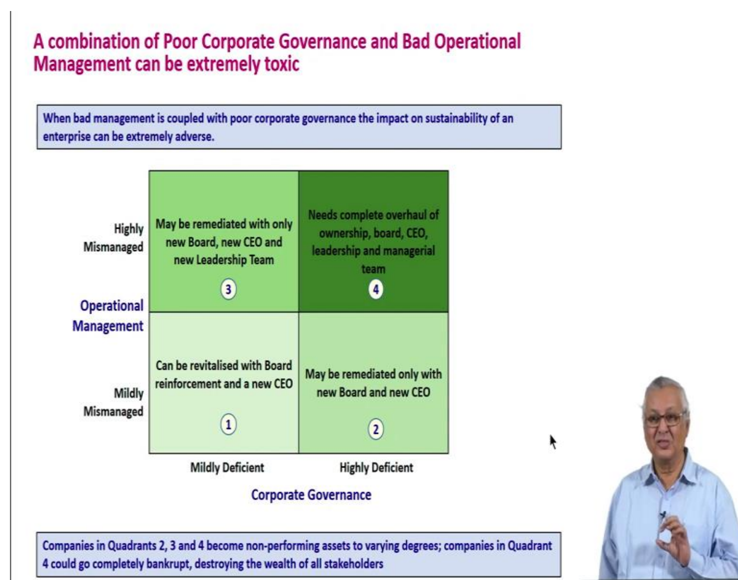

Again, a combination of poor corporate governance and poor operational management can be extremely toxic. Let us say, you have this two by two matrix where corporate governance is mildly deficient, highly deficient. You have management which is mildly mismanaged, you have got highly mismanaged. If you have a mildly deficient corporate governance and mildly mismatched operation, you can get a good CEO and then reboot the company to greater heights.

On the other hand, your corporate governance is bad but management is slightly bad, then you need both a board as well as the CEO to handle it, but if operational management is highly mismanaged and corporate governance is mildly deficient, you require the operational team also to be overhauled. On the other hand, both are highly, on the other hand, if you have both corporate governance and operational management in highly off-tracked situation, you need a complete overhaul of the entire company it is a tall order .

And probably this combination could be so toxic that the company would eventually face corporate collapse. So, how do you see corporate governance and corporate management is an extremely important task for the leaderships of the companies and also for the people who analyse the companies from the outside.

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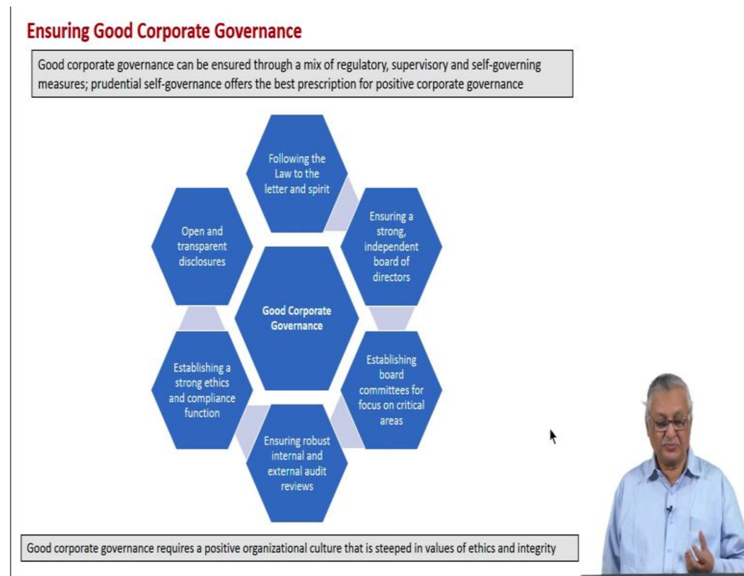

So, how do multinational companies do? And how do big companies do? They do it through a mix of regulatory supervisory and self-governing measures and ultimately prudential self-governance offers the best prescription for positive corporate governance. These are five-six, one follow the law to the letter and spirit, ensure a strong independent board of directors, establish board committees which focus on critical areas.

Ensure robust internal and external audits, establish a strong ethics and compliance team and have open and transparent disclosures. Therefore, good corporate governance is based on a positive organisational culture which is in turn brought in by the board of directors as the CEO who is responsible for ethics and integrity in an organisation.

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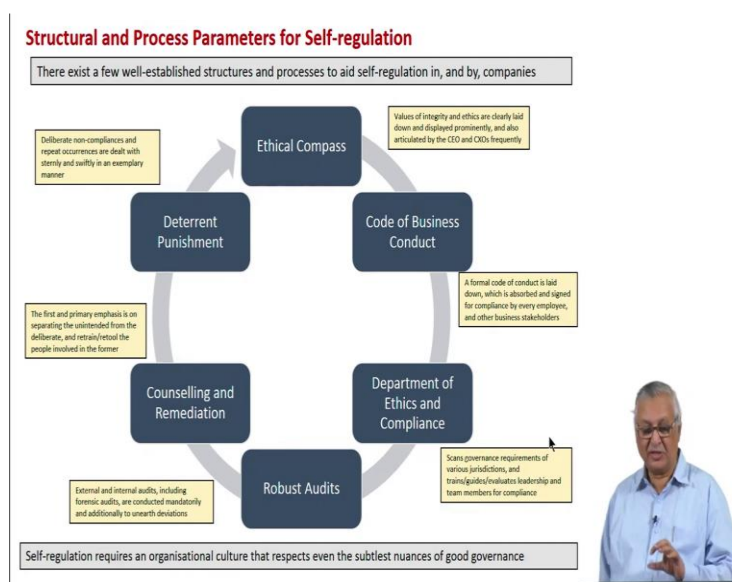

So, there are well, some very well-established structures and processes for us to help in self-regulation by companies, first you should have an ethical compass which should be very evident. I have worked in a multinational company where when you sit on the dining table; you have the ethical compass before you. Ethical compass is there all over the company where you can see the values of ethics and integrity listed out.

So, every judgement of you as an employee has to be taken under the purview of the ethical compass. Second, there is a written code of business conduct which says that you must do this, you must not do this. And when visitors offer you gifts, this is the way you should treat them. When you take a new vendor, these are the codes he or she should follow, so there is a code of business conduct.

Then there is a formal department of ethics and compliance whose job is to look at the execution of ethics and compliance function in the organisation, they have to conduct the training programs, they have to report to the management independently, they are part of the senior leadership team. Robust audits are conducted and counselling and remediation is conducted. Again, as I said there should be difference between one of unintended error and a systemic error.

Therefore, it is to be assumed that if error is found, it is not necessarily because of poor corporate governance or deliberate falsification, it is a genuine error possibly. So, remediation counselling is the first step to ensure that it is on the right track but if there is a

repetition, any repeat observation could lead to deterrent punishment. So, these are the six factors which are very important to ensure that the corporate governance is conducted in a proper and appropriate manner.

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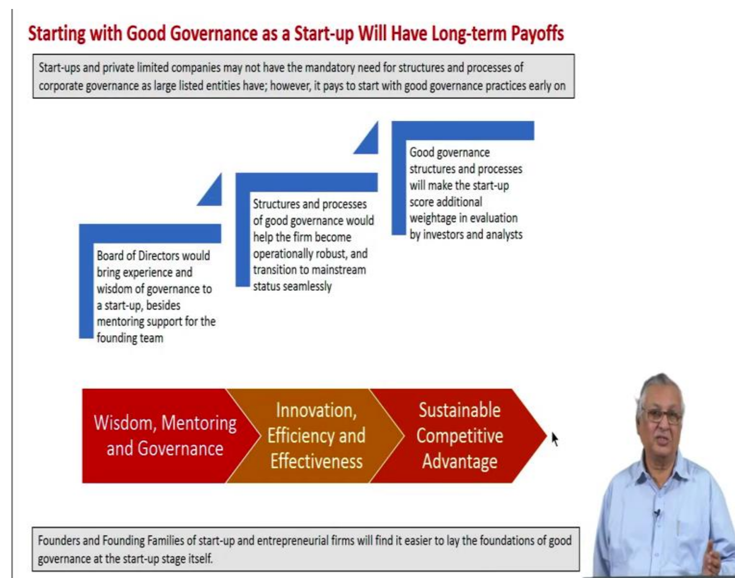

My proposition is that, if you start with good governance as a start-up, it will have long term pay offs, if you have board of directors from the beginning, it brings lot of wisdom and a good way of conducting the business besides, providing mentoring support for the founding team. If you have structures and process of good governance, it makes the company operationally robust and also makes the transition to the main stream company status seamlessly.

And when you have good governance practices and policies and procedures, it will add weight when you go for IPO and investors and analysts will definitely provide greater valuation to such a start-up which has that kind of capabilities. So, from wisdom, mentoring and governance which as board gives to innovation, efficiency and effectiveness which an organised way of functioning gives to sustainable competitive advantage which gives from wisdom and mentoring and governance.

From wisdom and mentoring and governance which a board of director brings to innovation efficiency and effectiveness which a good process brings. There is lot to be gained by having structured corporate governance process and structured management process in a company. I would therefore, propose that founders and founding families of start-up an entrepreneurial

firm will find it easier to lay the foundation for growth with adoption of corporate governance practices from the very early stage of start-up operation. Thank you.