

08th August, 2011

Corporate Governance and Integrity

Preceding two centuries have seen the emergence and unbridled growth of corporates. The corporate jurisprudence recognizes that corporates take birth by their incorporation and they are incarnated as 'persons' though not living persons but juristic persons.

The same is expected of corporates that they would imbibe nobility as a trait of their structure and character. It will not be an exaggeration to say that looking at the role which has come to be assumed by the corporates, it is expected of the corporates that they have conscience and consciousness.

The Mother of Sri Aurobindo Ashram has said – 'the conditions under which men live upon earth are the result of their state of consciousness; to seek to change the conditions without changing the consciousness is a vain chimera.' In the modern world the quality of living life would depend on the level of corporate consciousness which, needless to say, in its turn depends on the level and quality of consciousness of those who for the time being own or control the concerning corporate body or organization.

My brief address this morning, I would like to open with a vibrant message from Martin Luther King, –

*"Whatever career you may choose for yourself – doctor, lawyer, teacher – let me propose an avocation to be pursued along with it. Become a dedicated fighter for civil rights. Make it a central part of your life. It will make you a better doctor, a better lawyer, a better teacher. It will enrich your spirit as nothing else possibly can. It will give you that rare sense of nobility that can only spring from love and selflessly helping your fellow man. **Make a career of humanity. Commit yourself to the noble struggle for human rights. You will make a greater person of yourself a greater nation of your country and a finer world to live in.**"*

The message from King is to those human beings who govern, wield power and have potential to influence others. I strongly feel that the Message in this day's context is meant to be read by corporates too; the corporates can be better corporates, rich in spirit and involved in struggle striving for and aiming at nobility.

Organizations today are operating within increasingly complex and demanding social and ethical environments. As concerns for the natural environment have grown, so too have demands that organizations conduct themselves with greater care and responsibility for creating the right environment. Creating the right environment is all about creating the ethical climate and setting the organization culture. The spate of scams that have been unearthed in US and India, during the recent past, all point to one factor- 'lack of integrity'

Corporate scandals of various forms have evolved public and political interest in the regulation of corporate governance. Legislative process, both in US and in India, has

activated itself so as to restore public confidence in corporate governance. Corporate governance experts have got busy in storming their brains and facets of CSR which have emerged are:

- Rights and equitable treatment of shareholders
- Interests of other stakeholders
- Role and responsibilities of the board
- Integrity and ethical behavior: Disclosure and transparency

In the event starting this morning, we are more concerned with the fourth; which though fourth is at the root of the earlier three too. Integrity is the foundation on which all other values are built. In corporate circles, integrity quotient has acquired, if not higher, at least an equal status with intelligence quotient.

Governance involves wielding power – economic, social and political power. There is also psychological power which flows from the leader's personality. Indian thought has always believed that the reins of power, inner or outer, have to be yoked to the values of *Dharma*. Let me enter a caveat. *Dharma* is not religion. '*Dharma* denotes upholding, supporting, nourishing that which upholds, nourishes or supports the stability of the society, maintaining social order and general well-being and progress of mankind; whatever conduces to the fulfillment of these objects is *dharma*.' [(1996) 9 SCC 548, para 78, citing *Mahabharat, Karna Parva*, Ch. 58]. These synthesis of these values has to be adopted by the corporates as *corporate dharma* so as to evolve the concept of value based progress and prosperity. The modern corporate world is perhaps in a better position to do so because of its greater competence in collective organization.

(1) Business consciousness and integrity management is beautifully described in the book 'Integrity Selling for the 21st Century: How to Sell the Way People Want to Buy' by Ron Willingham. 'Integrity Selling' is a process that both the business and their customers will feel good about doing. It's doing the right thing for people. When the Company sells with integrity, they don't approach people with the intent of selling them anything or everything; rather, their goal is to gain rapport and understand the customers to help them get that they need.

(2) 'Integrity Selling' is doing something *for* people rather than *to* them. Its focus is to create value for customers. It's all about the stakeholders, not the company. When values, motives, and desire to help the customers are right, the actions and behaviors will be right. Customers want to do business with people they can trust. That's why strong ethics and values contribute more to selling success than strategies and techniques. This is of course witnessed by various studies that revealed that the investors are ready to pay premium for a better governed company.

Personal integrity is the foundation required for business success in the long term. It's impossible to have business integrity without personal integrity. Quint essence of integrity is righteousness, transparency and truth. It is the key to success as it creates lasting impact which, in its turn, creates permanent bondage in every relationship (employer – employee, vendor-customer, managers at different levels and every one the man of integrity interacts with). It earns respect and commands following.

These essential elements of integrity are well recognized in business. We hear top executives talking about 'Integrity' as the foundation of long-term effectiveness. Many reputed companies have placed Integrity as a core element in their value systems. Unfortunately, at times, 'integrity' takes backseat for short term gains. Investigations into recurring instances of mis-governance show that someone who matters had fallen prey to temptation and had suspended or lost the personal integrity. The results have invariably been disastrous.

Corporate Governance, to my mind has four basic things:

- Each one, from MD to directors to the employees at level 2, 3 or 4 has to do his duty, as per law and as per his conscience;
- Independent directors have to do their jobs as expected of the generic name assigned to their office. To be precise, independent directors have to be independent directors and not just acting for the direct or indirect benefits from the company or the promoters.
- Professionals like Company Secretaries or the Auditors have to perform their task and do their duty as a custodian of not only the stakeholders but of the society generally. This realization has necessarily to dawn upon them as a reality that they are the trustees and custodians of the people's money,
- In the ultimate analysis: it is all about ethics and integrity. The State may frame laws and regulations but the persons are ultimately in charge of their own ethical standards alongwith their education, learning, skills and know-how; ethics and integrity, knowledge and learning – both crave for continuing nurturing.

Effective implementation of an ethical ideal or concept requires two factors:

- (i) Creating ethical consciousness;
- (ii) Promoting ethical conduct and behaviour

Key Note address on The Institute of Company Secretaries of India (ICSI) first "ICSI Corporate Governance Week" from 8 to 12 August 2011, which has inaugurated on August 8, 2011 in New Delhi.