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CII Summit stresses on importance of Independent Directors in Corporate Governance (14 Sep, 2005)

The CII Corporate Governance Summit was held in Mumbai on 14 September.

At the inaugural session, chief guest Mr M Damodaran, Chairman, SEBI, said good corporate governance is a continuing process, and not restricted to present day legal requirements. Independent directors and executive directors were not adversaries, but were on the same side, he said, and expressed the hope that Indian corporates would soon reach a stage where their internal systems would be stricter as compared to mandatory legal requirements.

"Governance is not about legislation," he said adding the rider that legal requirements should be the starting point. On the point whether good corporate governance would ensure that a company would perform well, Mr Damodaran he turned the question on its head: if a company does not have good corporate governance, would it continue to do well?

Mr Damodaran delved on the 'independence' of independent directors, pointing out that compensation was the point in question. "Too low, and you won't retain the good ones, too high and their independence will be lost," he pointed out.

Stating that there was no such thing as a stress-free environment, he said just as success lies in not eliminating, but managing stress, independent directors ideally should bring such 'stress' to the board. Systems should be in place to ensure that companies are run properly, for which certifying systems needed to be in place, he added. He urged corporates to set such high standards for their companies and the industry as would make the world more difficult for those who were less complaint.

Mr K V Kamath, MD and CEO, ICICI Bank Ltd., while delivering the keynote address, expressed the hope that Indian corporate governance, currently rated Asia's second best, would soon take the number one slot. Terming the concept of governance as being more misunderstood, he sought to define it as "what adds value for the investor". He stressed the need for corporate India to get into the spirit of corporate governance and not pay lip service to 'check boxes' of mandatory regulatory requirements.

The role of a company's board of directors has grown in the past few years, and the importance of independent directors was gaining importance, said Mr Kamath, adding that 'constructive tension' between independent directors and executive directors was a pre-requisite for good corporate governance, which he felt, would lead to ethical means of doing business.

During the summit, the concept of independent directors and their role in good Corporate Governance came up for discussion, as did the larger question of changing business environment and the new challenges that managements face.

Terming good corporate governance as a journey and not a destination, Adi B Godrej, Chairman, CII Council on Corporate Governance & Regulatory Framework and Chairman, the Godrej Group, laid ground for an interesting summit in his welcome address. He also made a few references to aspects of the mandatory requirements, which he felt; the market regulator ought to give a closer look.

Delivering the theme address at the summit, Mr Nimesh Kampani Convenor CII Corporate Governance Summit & Chairman, J M Morgan Stanley stressed on the role of independent directors in the process of Corporate Governance. He also felt that the company CEO's

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performance ought to be judged, and said the board was apt for this task. On how best to judge whether a company was into good corporate governance, he said: "The truth lies somewhere between disclaimer and the disclosure."

Mr Banmali Agrawala Chairman CII, Maharashtra State Council and managing director, Wartsila Ltd. said good corporate governance was not just for listed companies, but also for all corporates.

Chairing the session on Governance and Accountability - Compliance to Conscience, Mr J J Irani, Director Tata Sons Ltd. said what constituted 'conscience' was dependant on individuals, and what was 'right' for some could be wrong for others.

Mr D D Rathi, whole-time director Grasim Industries Ltd said corporate governance was about trusteeship. He felt corporates should be a step ahead of regulations and should ensure real compliance. Simplified and unambiguous regulations would encourage high standards of corporate governance, he felt.

When one is part of a board, all wear the same hat, said Mr Ajeet Prasad, executive director UTI AMC. He said the independent director was the conscience keeper of the company. While consensus was needed, in the event that a situation would so require, an independent director should point out things in the interest of the company.

Mr Vikram S Mehta, chairman, the Shell Group said absence of governance would affect profitability. He pointed out that 'governance' was a Greek word, which loosely meant someone responsible for 'steering'. But, in the present day scenario, there were three issues: one, the fact that fiscal reportage was no longer an exact science, second: the role of minority shareholders and third, instances of personal interest on part of executive directors. Considering all three aspects, he felt that independent directors should not be expected to behave like 'policemen'.

Conscience is what it ought to be, compliance is what is sought to be, said Ms Dipti Neelakantan Chief Operating Officer J M Morgan Stanley. She stressed on good corporate governance by pointing out that a company, which was perceived to be 'good' never faced problems with subscription when coming out with an IPO.

Mr Anjani Agrawal, Partner, Ernst and Young spoke about what boards would be facing in the coming years. He stressed on intellectual honesty on part of boards to achieve objectives. As the investor community undergoes a change, the board will have to live by its quarterly report while creating long term increase in value for the investors. He also raised the issue of disclosures, saying it was easy to say the same should be balanced and understandable, but for whom, a common man or an intelligent investor? He also touched upon the issue of just how much a company should disclose.

In 1776, Adam Smith had spoken about the invisible hand of self-interest, as propelling business, said Mr Agrawal. Today, there are concerns about personal interest on part of executive directors, this is where independent directors will play a major role, he concluded.

September 14, 2005
New Delhi

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