Accreditation of Corporate Governance: Must for Enterprises

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Corporate Governance has become the key premise for sustainable growth and success of an organisation in the present day world. Its importance also increases manifold given the financial investments of the stakeholders in the corporations. An investor invests in an organisation on the basis of good faith and performance of the company and it becomes the board's responsibility to ensure that the custodian of the investment (i.e. the corporation) not only provides a modest rate of return but also keeps the investment safe and ethical. With growing uncertainty and volatility in the corporate world, need for meeting highest and most stringent benchmarks of governance has become pivotal. Therefore, the present corporate governance standards across the globe have become a system by which corporate entities are run and controlled effectively and efficiently. It encompasses the entire spectrum of the functioning of a company and attempts to put in place a system of checks and balances among all the shareholders, stakeholders, directors and the management.

Corporate Governance benchmarks across the globe are based upon core principles of Transparency, Accountability, Integrity & Ethics and Responsibility. Hence, it can be said that corporate governance is a concept for maximising long-term value of the company for its stakeholders in fair, transparent, legal and ethical manner.

Globally, the concept of corporate governance initially emanated from the Cadbury Committee Report (UK). In India, opening up of the economy in early 90s and increasing business alliances called for adhering to international best practices. Recognizing its growing importance Securities and Exchange Board of India (SEBI) appointed Kumar Mangalam Birla Committee to work for on official guidelines of corporate governance in Indian context. Based on the Report of this Committee, SEBI issued guidelines on corporate governance which covered issues like composition of Board of Directors, Audit Committee and its functions, remuneration of Directors, Board procedure etc. while till then Corporate Governance focussed more on transparency, Enron debacle in US raised questions about corporate ethics. The Sarbanes Oxley Bill (SOX) was passed in the US Congress which brought with it, fundamental changes in virtually every area of Corporate Governance. Most of the countries across the world sought to move towards consolidating the corporate governance code in order to facilitate strict implementation of the set guidelines and thus avoid Enron kind of cases in future. Accordingly, in India also Department of Company Affairs (DCA) appointed Naresh Chandra Committee. Moving forward, keeping in view the dynamic nature of business development, the SEBI Committee on corporate governance chaired by Mr. N.R. Naryana Murthy drew up a series of recommendations to make corporate governance practices stricter in India. Subsequently, in October 2004, SEBI came out with the revised Clause 49 of the listing agreement for companies in stock exchanges giving importance to independent directors and revamping the existing practices. Most recently SEBI formed a Committee on Corporate Governance under the Chairmanship of Uday Kotak to further improve the corporate governance code in the country. The Committee came up with various recommendations including strengthening of independent directors, representation of woman directors on the board, disclosures regarding subsidiaries and joint ventures, corporate governance of PSEs etc. Few of the recommendations have been incorporated in the Clause 49 of the Listing Agreement for adherence by companies.

On analysing the fruition of corporate governance in India and across the globe it is evident that the system of governance is constantly evolving primarily due to its subjective nature. Every country adopts a customised model of corporate governance given its culture, political and social environment, legal structures and ownership structures. This leads to development of various 'good' corporate governance standards but degree of 'good' is immeasurable and as Peter Drucker wrote *"...if you can't measure it, you can't improve it"*. Hence, it is important that an accreditation tool for corporate governance is developed so that corporate governance standards of a company can be measured objectively and comprehensively and improved upon appropriately.

Accreditation would provide a standardised and systematic way to analyse corporate governance across companies operating in different sectors and in similar or same geographies. This would facilitate companies to benchmark themselves on their corporate governance standards whereby enabling them to improvise on their existing practices. Though, given the fact that corporate governance standards are different across countries, a possibility of different accreditation parameters based on universally accepted principles may be developed so

as to make accreditation customised based on global principles of ranking good corporate governance practices.

Key advantage of accreditation is that this would also help regulators to monitor the corporate governance levels of companies and pave way for further reforms by identifying strengths and weaknesses in specific corporate governance practices. At the same time it would incentivise the company to compete and improve their brand. An objective measurement of observance of corporate governance norms would help in developing benchmarks thereby promoting better adherence to corporate governance norms. This being a continuous process would also help organisations to analyse their progress over time and help them to identify with the best followed corporate governance practices across the country/globe.

Accreditation of corporate governance would ensure all stakeholders primarily being investors/ shareholders, customers, vendors and the management. Tools for accreditation would add positively to the overall credit rating of the organisation implying better credit worthiness thereby making the company more investor friendly. It would also give investors a uniform tool for measurement across portfolios, schemes and competitive scripts. This would in turn positively impact the market valuation of the company. Additionally, accreditation helps as a motivational tool as it incentivises companies in adopting improved corporate governance practices. Also, accreditation would help the lenders to make informed lending as it would help them in being assured of timely payment.

Developing an Accreditation Model

Accreditation framework should be based on four pillars of corporate governance i.e. Fairness, Transparency, Accountability and Responsibility. Micro basis shall be multiple parameters such as how much customers are delighted which would be measured by their satisfaction with respect to quality of the product, service quality/ response time and after sale service etc. Similarly there would be multiple parameters to each micro aspect of satisfied suppliers, willing investors, trusted employees, happy creditors, assured government, rich society, unified community and protected environment.

An ideal accreditation model should be able to reflect the best global practices of corporate governance and hence, should be based on internationally accepted standards.

Therefore, it would be advisable that the accreditation process adopts the OECD principles of corporate governance namely ensuring rights of shareholders and key ownership functions and equitable treatment of shareholders including minority shareholders. This should also include disclosure, transparency and responsibilities of the Board.

In addition to the above principles, accreditation should be progressive and not aim at achieving minimum standards i.e. it should encourage companies to improvise their corporate governance practices. The process should be comprehensive in coverage and aim at covering all stakeholders. Also, it should be objective, measurable and universal so as to be applied across all sectors and industries along with ability to identify gaps in corporate governance practices. Lastly, it should be extensive and attain highest quality of assurance processes so as to ensure independence and reliability in assessment.

To attain the intent of this exercise, it is essential that the questions should cover all aspects of corporate governance and detailed parameters of each cornerstone. There should be enough questions to obtain completeness of each parameter. Once the parameters are developed, the next step would be to develop the marking system i.e. how much weight should each question carry so as to arrive at the final scoring. Efforts should be made to keep the total weight to 100 and accordingly marks should be awarded to each section. Distribution of score would make the exercise comparable and measurable.

Last but not the least, the system of accreditation should be made mandatory to all companies else the purpose for developing the tool would be lost. A gradual approach for making accreditation mandatory shall be adopted however; the system should be foremost made mandatory for all listed companies and companies proposing to list their scripts given the exposure of all stakeholders investment. Further, it could be a vital parameter in obtaining corporate rating for the company and its scripts. Alternatively, SEBI and other regulators can make accreditation of corporate governance standards as a prerequisite for trading on stock exchanges.

Way Forward

Above model is only suggestive as developing a system for accreditation would require substantial efforts. It not only requires knowledge and mathematical/ statistical expertise but also entails foresightedness and vision. While the measurement of corporate governance practices is tricky, it is essential that the methodology of accreditation should be developed after many deliberations. It must be scrutinised and evaluated on regular intervals. We need to understand that we are trying to give objectivity to otherwise a very subjective issue and therefore, a hawk eye would always be needed to lookout for the inclusions and exclusions to be made.

Views are personal