

# Corporate Governance Need for Value Leadership

*Transparent leadership adds credibility to a working relationship. Over time, others will follow in your footsteps.*

Business corporations have emerged as the engines of development across the world and are administered through the system of corporate governance. The OECD (Organisation for Economic Co-operation and Development) defines corporate governance as “the system by which business corporations are directed and controlled.”

In other words, corporate governance refers to the extent to which companies run in an open and honest manner in the best interest of all stakeholders. The key elements of good corporate governance are transparency and accountability.

## Why Is It an Issue?

In the 2005 governance indicators of the World Bank, India is in the 47<sup>th</sup> position in “control of corruption.” Further, in the World Bank’s latest (comprehensive) annual exercise on the ease of doing a business in a large number of countries, India ranks 122<sup>nd</sup> out of

Dr. A. Jagan Mohan Reddy\*

180 countries, well below China (83), Pakistan (77) and Mexico (5).

Corporate disclosures has always been a sore point between stakeholders and the management. The decision on what must go into the public domain is difficult, due in part to the reality that a company thrives primarily on well-kept business secrets of success.

## Improper Practices

These are legitimate concerns, though history has also uncovered improper practices hidden and protected under the cloak of business secrecy. There was public outcry when the cloak was removed and politicians and corporations revealed who and what they really were. Thanks to them, corporate governance has taken on a new level of urgency and importance.

The learned Vedavyasa Maharshi begins and ends Srimad Bagavatam with the verse, ‘Satyam param dhimahi.’ In essence it means, “Seek the truth, the whole truth and nothing

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*Dr. A. Jagan Mohan Reddy is Associate Professor (HR) at the Institute of Public Enterprise, Osmania university campus, Hyderabad. He can be reached at adamareddy@yahoo.co.in. This article is a summary of his speech at the 80<sup>th</sup> Philosophica Congress held in Mumbai during October 24-27, 09. (courtesy: Tattvaloka)*

else but truth.” But certain shocking incidents took place in India and abroad during the last couple of years which were exactly contrary to this Vedic dictum.

The rosy veils that many corporate giants hid behind were also responsible for some of the world’s biggest corporate scandals.

### Law and Loopholes

Does this mean that there is no legislation on corporate governance? We have had no dearth of legislation on corporate governance. The Kumramangalam Birla Committee in 1999 and the Narayana Murthy Committee much later did suggest concrete measures to improve corporate governance regulations and disclosures in India.

Corporate governance and the role of independent directors may have received renewed interest, thanks to the Satyam scam. But corporate boardrooms are dishing out some not so pleasant findings.

“Nearly 75 per cent of all independent directors are “home members,” who are natural allies of promoters and are not independent in any sense,” says a study by the research firm, Prime Database. What are film people doing on the board of an airline company? How does a leading lawyer manage to find a place on more than 50 boards of listed and unlisted companies?

Hidden in some of these questions are the reasons that have led to corporate governance being reduced to mere lip service in most

Indian companies. But exceptions remain. In response to the Infosys succession question, Co-Chairman N.R.Narayana Murthy demonstrated why his company is considered the gold standard in corporate governance.

These examples give us reason to believe that in the areas of economy most crucial for inclusive growth, it is governance rather than finance that is the binding constraint.

### Leadership and Governance

*“For me corporate governance is a mindset, a question of value-systems”.*

- N.R.Narayan Murthy

The essence of governance is leadership. If it is accepted, then the goals of governance can be broadly classified as follows.

1. **Self-governance** : one who cannot manage himself cannot manage others. The manager should have his own values which he can impart to the employees. For instance, Kings such as Rama and Bhishma respected their own words.

Rama, respecting his father’s promise, took up *vanavasa*. Bhishma, to satisfy the desire of his father, took oath to remain a bachelor throughout his life, with complete dedication, willingness and without repentance.

Yudhistira never got angry against anyone and never treated anyone as his enemy. That is why he is called *Ajatashatru*. Even when Draupadi wanted the Kauravas be avenged Dharmaraj was for forgiving them.

## 2. **Wielding Power under the Yoke of Values**

: There is extensive scope and crying need for dharma (values) in corporate management. Business should make profits, but not profiteer. It should stay viable and self-sustaining; pay taxes and such other things. One can go back to the *Arthashastra* to learn a trick or two, about corporate governance. In this book Kautilya provides guidance on how a chief executive should conduct himself. “The chief of corporations should endear himself to all the people by leading a virtuous life, by controlling his passions, and by pursuing that course of action which is liked by all his followers.”

## 3. **Empowering People**

: In business, the concept of *Shreshta Dharma* is much relevant to executive and supervisors, at all levels, who have been delegated authority and accountability. They should practice this dharma towards their subordinates.

This is like delegating ownership to accomplish some task. We can realise this from the story of Hanuman. Rama believed him and gave the ring to him to prove to Sita that he was a messenger from Rama. The *vanaras* (monkeys) and Jambavan motivated him to cross the ocean. Consequently, Hanuman was able to accomplish his task.

## 4. **Forging Fraternity and Creating Equity**

: Sudhama, Guha and Shabari are good examples. Sudhama, though poor, was treated by Lord Krishna with respect. Guha, a tribal, was hugged by Rama while

in the forest. Guha helped Rama cross the river in his boat. Rama ate the fruits Shabari gave him after tasting them first. This shows that the person at the top should treat others equally.

We must note here that being equitable does not mean being equal. Perfect equality of distribution is neither possible nor desirable in the economic, social and political life.

## **Need for Value Leadership**

In every country or company which is accused of abuse, the traits are all the same: Abuse of power, breach of ethics, undermining of honest accounting, deception of both public and private watchdog groups. But the companies or people that matter in them go scot free.

In Europe, winning companies are seen as those who not only increase profits by maintaining the highest standards, but those who increase social value at the same time. Generally, good corporate and political governance in Europe boils down to principles of dharma or righteousness – trust, honesty, values, good citizenship.

Indians, as the originators and inheritors of dharma, have a special responsibility and opportunity to balance the pulls of consumerism and prudent thrift.

Leadership at the corporate and government level should practise a style that is both transparent and credible.

### Tips for Managers:

A few tips to think about in this regard.

1. Be honest with all members of staff. Show interest in their work and remove all their doubts about working with you.
2. Ask for their opinion and respect their feedback. This gives the basis for mutual trust, and promotes transparency.
3. Be open about your personal habits, and reveal relevant facts about yourself. You will do that with friends, so why not with your colleagues? Make them look up to you not just as a leader or boss, but as a friend and confidante, too.
4. Commitment is important. If you agree on something, fulfill your part of the bargain. If you have to renege on a promise, explain to them your reasons.
5. Walk the talk. Ingvar Kamprad, the Swedish founder of IKEA, is famous for

living frugally despite being the fourth richest person in the world last year. He drives a 15-years-old-car, flies economy class, eats cheap food and leads as ordinary a life as his IKEA staff.

6. Communicate. Be courageous and accountable. Admit mistakes and shortfalls. Not every news is good news, and a large part of good training is in communicating bad news.

While organisations and corporations are working on good governance and practices to become more transparent, people at the helm should also practise similar transparency principles. A transparent leadership adds credibility to a working relationship. Over time, others will follow in your footsteps.

“For companies aspiring to leadership status, good governance is not a challenge, it is a great opportunity.”

*It is not that most people would disagree that society needs some standards of morality, it is rather a problem of agreeing what those standards should be.*

*How do we determine what is right? It's not as easy as it sounds, despite the fact that there's a vast field of study devoted to the topic which is described using terms like ethics, or moral philosophy.*

*“Truth, love, compassion, charity, righteousness and service are cosmetics of the soul which keep both men and women always charming.”*

*“Humility befits education, distances arrogance and brings harmony nearer.”*

*“Love, compassion and service are the needs of the mind more than money.”*

*“Compassion, restraint, humility, human consideration and judicious discretion never*