<u>Governing For Sustainability</u>

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Keynote speech at International Conference on Governance & Sustainability by Mauritius Institute of Directors & ACCGs, 17th November 2011

In recent past, world is witnessing a convergence in the interests of Government, Business and Civil Society. This convergence has brought a shift in the thinking of people. As a result, the civil societies all over the world expect a certain responsible behavior from business as well as government. It has been well established through several studies and research findings that 'Growth & Sustainable Development' of societies cannot be attained by weak governance in any country. This has catapulted the issue of "Governance" to the 'Global Centre Stage.'

Corporate Governance: Corporate Governance is all about value based leadership with intellectual honesty at the board level and a strong 'will' of management, which should translates 'value system' into the corporate DNA – what I call the "Corporate Sanskaras"

Public Governance: In the same context 'Public Governance' is all about principle based leadership at the political level and a strong 'will' of the government officers to deliver the services and utilities to the citizens the common man.

The crucial correlation: There is a strong correlation between Corporate Governance & Public Governance. These two are so inextricable intertwined that it is very difficult to improve on without the other. It is not enough to say that only the board of Directors should have a 'code of conduct & code of ethics'. We need to emphasize that there an urgent need for Principle based leadership in political Governance.

The paradox of business and Role of Ethics: It is a well accepted fact that the companies are the only entities that create wealth for the society, yet society does not have a very positive perception about the business. This means that there must be something that needs to be changed in the way we do businesses. What needs to be changed is the way businesses think. They should think 'Profit' but Not 'Profiteering'.

This throws up the issue of ethics and morals and how to bring them in workplace to create a culture of transparency and accountability across the organization and nation at large.

TRINITY of Corporate Governance: There are three things involved in the context of wealth creation; a) companies should create wealth in a value based manner, b) Manage wealth in a Transparent & Accountable manner and c) Distribute wealth with a principle of equanimity. I call this the 'TRINITY of Corporate Governance'.

Role of the Board: Since Mauritius is a hub of financial services and a getaway for FDI– I will take the example of Banking and Financial Services sector and argue the case for 'Governing for Sustainability'. All of us recently witnessed a financial crisis that began with the collapse of Lehman Brothers and its ripple effects, that threw world economy into a serious global financial crisis, the worst since the 1930s. One can blame the self-interested financiers and the sleepy regulators to conflicted credit rating agencies, to passive shareholders, no one escapes the list of potential culprits. But the most critical question from a corporate governance view point is **Where was the board?**

The board is the ultimate authority where the buck stops, and this global financial crisis has exposed the lack of oversight on the part of corporate boards. Strengthening board independence and improving board oversight, particularly in the area of risk management, is the an important point for Governance for Sustainability.

The genesis of this crisis was innovation in financial products and its unfair exploitation with 'Greed' was its epicenter.

This throws two important issues to ponder:

a) issue of ethics and morals and how to bring them in workplace.
b) Effectiveness of Board and its committees

There is no doubt that product innovations are important and much needed for the sustainability of the banking and financial services industry, but equally important is how to manage the challenges thrown up by such innovations and put in place the prerequisite checks and balances and the system to implement it, will decide the strength or weakness of the company. This is what the governance is all about. These checks and balances were weak in the Banking and Financial Sector companies of USA, which led to the collapse of monolithic institutions like Lehman Brothers, Bear Stearns etc. As against this, governance was strong in Indian Banks therefore not a single bank failed in India.

Moral dilemma and grey areas: Coming back to the issue of ethics and morals in business, its not purely a black and white issue of ethical or unethical practices. There are many shades of grey in the form of complex business issues. Let us take the example of loan syndication by banks. If there is an inherently weak proposal which does not pass the internal standards of a bank 'X' but when other banks agree to extend the finance under syndication, after it passes their internal norms, a moral dilemma arises for bank 'X' as to whether it should go with the evaluation of the other bank or stick to its own standard of evaluation. This is a typical issue of 'letter vs spirit'. It is easy to understand the letter of law but it is very difficult to implement the spirit of law. If Bank 'X' goes along with the evaluation of the other banks and becomes a party to 'loan syndication', it is not breaking any regulation in letter and yet not upholding it in SPIRIT. Corporate governance in the context of banking means internal governance at micro level within the organization for which the top management is responsible and external governance which comes from outside the organization.

The dilemma is whether a bank or a company should adjust its internal governance as per the standards of external governance? If the external governance is lax should the bank 'X' make its internal governance lax as well? Unfortunately such a decision may be sometimes necessary to survive in the system. The caution here is how often? Because conformity may lend to short circuiting once but if you do it once, repetition may become the norm and you get on this downhill path which is slippery. In the context of ethics in financial institution, the construct of balance sheet v/s P&L account assumes an extremely important position. The external world players like analysts and investors tend to be very short sighted because their focus is on what the P&L is. It is very often easy for the financial institution to manage their P&L because a lot of it sits on their balance sheet for a long time. Therefore, from the ethical view point the role of balance sheet is extremely important for the future of the financial institution.

Context of Sustainability: Traditional accounting and reporting emphasize assets without showing them to be interdependent. In the 21st Century, it is often the interaction between financial, human, natural and social capital that leads to value. Thus, Companies need to look beyond profit and move towards Triple bottom-line in their own enlightened interest because...It pays to be Socially responsible company and protect environmental capital. Triple bottom-line approach leads to Sustainability. Reporting on Sustainability is equally important this is an idea whose time has come. GRI (www.globalreporting.org), has created a globally acceptable framework of reporting on sustainability. These are called GRI, G3 guidelines. Several thousand companies from around the world have begun to bring out their 'Sustainability Report'.

The awareness on sustainability issues is a growing amongst public, quite a few governments have started recommending sustainability reporting. For example Swedish, Norwegian and Danish governments recently recommended corporate social responsibility reporting. The Swedish government has made reporting according to the GRI G3 Guidelines desirable for their state-owned enterprises. The Danish government has asked all companies to come out with CSR reports on a "report or explain" basis. President Obama has said that central to the policies of his administration will be the environment. South Africa has taken lead in making it mandatory for Public listed companies to report on Sustainability. In conclusion capital is not the only asset, social capital, the human assets and environmental capital are equally important. Hence Boards should play a role of stewardship and govern companies for sustainable development. That is the crux of Governing for Sustainability.

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