CHAPTER – SEVEN
SUMMING UP.

EXECUTIVE SUMMARY, OBSERVATIONS AND FINAL ANALYSIS, RECOMMENDATIONS AND CONCLUSIONS

The concluding part of the study is the holistic view of the work done by the researcher in the preceding chapters of the study. It presents the gist of the study to recapitulate the work already done by the researcher. On the basis of data and information obtained on corporate governance practices in HLL and Godrej Group, the researcher has drawn conclusions after analysis of the data.

The researcher has also given his observations on the basis of his visits to the corporate offices of HLL and Godrej. These observations and analysis have made ground for the recommendations which have been given in the successive paragraphs of the concluding part. The study has led to interesting findings about the corporate governance practices in HLL and Godrej Group. It was found during the course of the
CHAPTER – SEVEN

SUMMING UP.

EXECUTIVE SUMMARY, OBSERVATIONS AND FINAL ANALYSIS, RECOMMENDATIONS AND CONCLUSIONS

The concluding part of the study is the holistic view of the work done by the researcher in the preceding chapters of the study. It presents the gist of the study to recapitulate the work already done by the researcher. On the basis of data and information obtained on corporate governance practices in HLL and Godrej Group, the researcher has drawn conclusions after analysis of the data.

The researcher has also given his observations on the basis of his visits to the corporate offices of HLL and Godrej. These observations and analysis have made ground for the recommendations which have been given in the successive paragraphs of the concluding part. The study has led to interesting findings about the corporate governance practices in HLL and Godrej Group. It was found during the course of the

Page 185
study that both of the organisations are practicing good corporate governance.

The study has also revealed that both are dedicated and committed business corporations which are translating the code of good governance in practice as given by various commissions and bodies appointed for this purpose. The findings of the study have important implications for the managements of the HLL and Godrej Group.

In the preliminary chapter of the study, the researcher has discussed the concept of corporate governance and corporate social obligation and the basic postulates of corporate governance. The researcher has also discussed the various issues and dimensions of corporate governance. In the following chapter i.e., second chapter, the concept of transparency and various other aspects of corporate governance have been discussed.

In the third chapter, the researcher has discussed research methodology which he has adopted for the collection of data and various other tools of research used by the researcher for the analysis of the data. The brief review of literature and the objective of the study have also been given.
Chapter Seven: Summing Up.

The fourth chapter of the study discusses various issues of corporate governance and the models of corporate governance practices as given by various committees and commissions. The fifth chapter of the study is an applied part which presents the corporate governance practices of HLL.

The sixth chapter of the study discusses the corporate governance practices at Godrej Group. Side by side, business ethics, corporate mission, corporate values and social responsibility of Godrej Group have also been discussed. The seventh chapter of the study is the concluding profile of the thesis which reproduces the abstract, observations, findings and their analysis and also the recommendations given by the researcher.

Corporate Governance, despite some feeble attempts from various quarters has remained ambiguous and often misunderstood phrase. For quite some time it was confined to only corporate management. It is not so. It is something much broader for it must include a fair, efficient and transparent administration to meet certain well-defined objectives. Corporate governance also must go beyond law. The quantity, quality and frequency of financial and managerial disclosure, the degree and extent to which the Board of Directors (BOD) exercise their trustee responsibilities and the commitment to run transparent
organization – these should evolve due to interplay of many factors and the role played by more progressive elements within the corporate sector. In India, a strident demand for evolving a code of good practices by the corporate themselves is emerging.

In general, why is governance becoming more and more complex and diverse, whether it is corporate governance, fiscal policy, public policy or in any other form? In the Indian context a good answer has been provided in a commemorative lecture at National Institute of Public Finance and Policy, New Delhi. It reads “Governance is becoming more complex because the policy in fragmented. For every reformer, you will find an anti-reformer. For every measure of reform, you will find some opposition. The task is difficult enough to put together a government which commands majority and still more difficult to continue to keep that majority for a long enough period. The people seem to elect, for a variety of reasons, parties and individuals who do not share a basic ideology or basic philosophy.

In fact, it is sometimes more comfortable to go back to the age of ideology when at least you knew that 350 or so individuals of one ideology could get elected – even if it was an imperfect ideology, at least some ideology linked them. Today, one can never say, to any degree of certainty, what will happen to a bill or
what will happen to a measure. It is quite possible that someone in your own constituency will stand up and say, "we do not agree". So given the fragmented polity, it is even more necessary to find some convergence on a few economic issues, particularly issues concerning fiscal and public policy."

Thus, for corporate governance to succeed, some convergence on a few economic issues is vital. According to Raja J Chelliah, "the official economic doctrine in India has not been modified to take account of the serious problems of governance that have arisen over the years in our country. It is felt that the deplorable weaknesses in the system of governance in our country can only be remedied through a movement of moral regeneration backed by sufficient pressure by an enlightened public. Institutional and structural changes are called for in addition to moral exhortation."

**CORPORATE GOVERNANCE**

What then is Corporate Governance? It is a phrase which implied transparency of management systems in business and industry, be it private sector, public sector or the financial institutions – all of these are corporate entities. Just as industry seeks transparency in government policies and procedures, so also, the debate on Corporate Governance seeks transparency in
the corporate sector. Corporate Governance, simply stated is, therefore, a system by which corporate entities are directed and controlled. It encompasses the entire mechanics of the functioning of a company and attempts to put in place a system of checks and balances between the shareholders, directors, auditors and the management.

Corporate Governance is basically no more than getting appropriate controls over what management does for some public bodies such as shareholders and to ensure some supervision over the management structure itself. The idea is to hold the management responsible for what it does within its jurisdiction.

However, it also well known that though the laws of any country try to make sure that those who sin ought to be punished but this does not prevent everyone from sinning. The same is true of corporate governance. Even when you have a code there would be transgressions. We still do not have one in India – though the (CII) National council had set up a National Task force on Corporate Governance under Mr. Rahul Bajaj, CMD, Bajaj Auto Limited in mid 1996. The task force had since recommended “desirable Corporate Governance Code.”
The concept of Corporate Governance, as brought out in "Corporate Governance: Time for a Metamorphosis" states it "as a system of structuring operating and controlling a company with a view to achieve long-term strategic goals to satisfy shareholders, creditors, employees, customers and suppliers with the legal and regulatory requirements, apart from meeting environmental and local community needs. It leads to the building of a legal, commercial and institutional framework. It also demarcates the boundaries within which these functions are performed."

Yet another definition of Corporate Governance was provided by the Advisory Board of the National Association of Corporate Directors (NACD), New York. As per NACD "Corporate Governance ensures that long-term strategic objectives and plans are established and that the proper management structure (Organization, systems and people) is in place to achieve those objectives, while at the same time making sure that the structure functions to maintain the corporation’s integrity, reputation and responsibility to its various constituencies."

In his "Role of Board of Directors in Emerging Dimensions", Dr. K.R. Chandratre has explained the concept as. "Corporate
CORPORATE GOVERNANCE & ETHICS

Jawaharlal Nehru had always cherished the dream of creating a ‘Socialist Pattern of Society’. In 1947, S. Radhakrishnan had stated ‘unless we destroy corruption in high places, root out every trace of nepotism, love of power, profiteering and black marking which have spoiled the good name of the country in recent times, we will not be able to raise the standard of efficiency in administration as well as the production and distribution of goods of life.”

However, nothing of the sort happened. India had to witness a number of scandals in high places during era of the ‘Licence Raj’. Starting with Jeep scandal in 1948 and the HG Mudgal case in 1950, a series of scandals likes the Mundhra deal, the Partap Singh Kairon’s mis-adventure in 1964, imposition of Emergency in 1977, the memory raising exercise for the party during Indira Gandhi’s period, the HDW deal with Germany for submarines in 1981, the Bofors scandal of 1987, the Harsad Mehta’s scam of 1992 and finally the Jain Hawala case in 1995 were just a few glaring examples of degeneration of values and unethical practices in high places in political field.
Political corruption, no doubt has very high degree of visibility and it makes sensational news. But it is chicken feed compared to corporate corruption. As per S.S. Gill (The Pathology of Corruption), unofficial estimates by the International Monetary Fund (IMF), state that the Indians have stashed away at least hundred billion dollars in foreign banks. According to US research study, India's capital flight to the United States during 1994 and 1995 was to the tune of four to eleven billion dollars.

Looking at the corporate ethics from another angle. According to one of our finance minister's statement (The Pathology of corruption) "there are about four lakh registered companies in India. Forty percent of them do not file any income tax return. In the top bracket there are nearly thirteen hundred concerns which did not pay any tax till 1995-96 as they were treated as "Zero Tax" companies. Indian banks carry a burden of forty thousand crore rupees as bad and doubtful debts and practically the entire sum has been advanced as loans to corporate sector. Despite all the noise about the government pampering the public sector at the cost of private sector, till 1990, seventy four percent of the advances made by the government financial institution went to the latter and these are mostly the borrowers who pay no tax. After liberalisation this figure must have gone up."
Britain was ranked as one of the cleanest countries in the world. How was this miracle achieved?

Ethics carry importance from the point of view of employees' customers, shareholders, lenders, dealers and vendors all of whom form part of the corps of business stakeholders. All need to be treated fairly and justly. Thus, "Ethics is a good business", the motto followed by the PHD Chamber of Commerce, rightly emphasising corporate ethics and good governance, becomes highly important in today's milieu.

Various dimension which interact and lead to Corporate Governance are:

- Legislation, Laws and infrastructure, codes of conduct for the law makers themselves.
- Corporates themselves - their values and concerns. Codes of conduct particularly at Corporate level.
- Society – their values morals and awakening. Their responses to corrupt practices are expressed through pressure groups and media.

The pace of good corporate governance is set at the initial stage of statement of objectives, particularly the corporate finance.
objective. An objective function specifies what the decision-maker is trying to accomplish and by so doing provides a framework for analysing various decision rules. In most cases the objective function is slated in terms of maximizing some function or variable (profits, size, value, social welfare) or minimizing some function or variable (risk, costs).

**MECHANISM FOR EFFECTIVE GOVERNANCE**

There is a quote which several information technology honchos from ministers to CEOs like using a lot: “India is not an IT powerhouse. Indians are IT powerhouses.” The remedy they suggest is take IT out of the metros to the masses.

The problem, however, lies in the fact that despite the giant strides made in the last decade, we are still essentially an agricultural economy, with three-quarters of our population living in villages, and a third of them unable to read or write. To take IT to the masses in India is going to be one of the biggest logistical challenges of the modern era.

The task is not going to be just providing people with hardware but developing applications which they can use. In villages, these applications essentially entail e-governance. From
Adam Smith to Alfred Marshall, the underlying thrust in the working of markets had been that whatever deficiencies surface on the demand and supply side of the market, they would be cleared through competitive price mechanism. Although Marx raised his voice of dissent which centered round the markets of the factors of production, notably capital – the economic history of the growth of capitalism proved him to be wrong.

Today, the voices of concern are once again being raised. Not only about ‘market failures’ but also failures, sometimes deliberate, of those who manage corporate empires and the auditors who are supposed to be independent and on whom the shareholders ultimately depend. To ensure smooth functioning, corporate governance needs both checks and balances.

In India, the ‘market failure’ syndrome after the country’s Independence was tackled through the mixed economy ‘models’ of Nehru-vian socialism – by creating public enterprises in power, steel, fertilizers, chemicals, mines and other sectors of the economy – who could provide the ‘supplies’ in the market instead of importing them at prohibitive price. In terms of value added, India’s private enterprises continue to have a dominant share of the market.
Following the practices adopted in the developed countries, we also set up the Company Law Board, the Monopolies and Restrictive Trade Practices Commission, the Securities and Exchange Board of India, the Institute of Chartered Accountants, the Institute of Costs Accountants, the Institute of Company Secretaries, etc. It is time we look into these institutions so that they can be suitably restructured before they prove to be helpless and redundant.

The initiative taken by the government to introduce a bill on setting up the National Competition Commission is timely and welcome, provided it is efficient not only in controlling monopolies but also in providing effective competition in the market. In this context, it is necessary to provide a word of caution about the disinvestment initiative taken by the present government. Hopefully, it will not "undo" these proposed reforms by creating new monopolies and oligopolies.

What are the new initiatives needed to provide checks and balances in India's market capitalism? The answer to this question should be sought not only to check the 'scams' of Harshad Mehta, Ketan Parekh and UTI, and a whole host of non-performing companies protected behind BIFR's fig leaf, who are responsible for the 'loot' of the non-performing assets of the Indian
banking system. We also have to check the new ‘scams’ of the kind the US and UK markets are facing today with WorldCom, Enron, Tyco, Vivedi, Marconi, Quest, Merc, Xerox etc.

For someone who teaches ‘Management’ to young minds and sees the working of companies as non-executive director on the boards – India’s preparedness’ in this direction has so far been inadequate. It is common knowledge that any company can ‘fudge’ their accounts in a number of ways.

Getting the revenue figures right is the first step in assuring fair and accurate financial reporting. Fictitious figures of amounts receivable, capitalised revenue expenses, provision for deferred tax, special purpose vehicle loans outside the balance sheet are common methods whereby accountants and auditors can hoodwink any company’s shareholders. Thus, auditing the auditors is an extremely important area of reform – on which India has yet to take even the first step. The system of dual audit for the much maligned Indian public enterprises has its internal checks and balance which does not apply to private companies.

The US initiative in enacting a comprehensive legislation which was passed by the US Congress in the last week of July under the leadership of Paul Sarbanes, the Democrat Senator, and
Senator Oxley, should be studied in India so that we can also take similar steps taken by the US government in this direction, Indian companies with US ‘listing’ should be deeply concerned about the possible consequences of this legislation in the days to come.

There are four foundations of the recent US legislation:

- A strong, Independent public oversight board will set professional standards for the accountants and auditors to make sure that they adhere to their standards. Such a board with investigative authority to oversee the Institute of Chartered Accountants in India would be a step in the right direction.

- The US act would safeguard the independence of US auditors by prohibiting accounting firms from non-audit management consulting services, which, in a company like Anderson, compromised the integrity of the audit for Enron. Anderson earned more in consulting fees than it did in performing audit. Price Waterhouse Coopers and KPMG in India should be encouraged to divest their management consultancy wings – as already done by Ernst and Young and Deloitte groups.

- New standards introduced under the US act for corporate accountability requiring executive certification of financial
statement, expanding rules governing conflicts of interest and instituting severe punishment for corporate fraud and other wrongdoing should also be instituted in India.

Finally, the new act will give the oversight bodies the resources they need. Both the new Oversight Board and the Financial Accounting Standards Board in the US would be independently funded by public companies.

The aim of the US reforms is that with tougher accounting rules and enforcement, corporate bodies can get back to serving customers, investors and employees. In India, our reform must also ensure that the corporate bodies must serve the government by paying taxes on their profits – to remove the blot from India’s stagnant share of less than 10 percent of GDP currently raised in tax revenue by the central government compared to between 40 and 50 percent by the governments in eastern and western Europe and much America.

In India, we should also aim at a new model of public-private competition – following the example of China – to achieve the desired results of an efficient market economy. The entire disinvestment strategy should be re-modeled accordingly with an eye on both ‘efficiency’ and ‘welfare’.
Chapter Seven: Summing Up

The Sarbanes Oxley Act, 2002, in the US, complements the Al Gore initiative taken to enact the Government Performance and Results Act (GIPRA), 1994, whereby every functionary in the US government has to deliver performance through targets and results which is an essential feature of any modern state-of-art bureaucracy. The urgency for enacting the GIPRA for India can hardly be overstated.

The Indian bureaucracy will be modernised when every member of the bureaucracy – from top to bottom – will be under tremendous pressure to set measurable performance targets and fulfil them, as they are in the US under GIPRA. This would also provide an effective remedy to the Indian malady of corruption in the bureaucracy.

On the basis of observations and findings of the study, the researcher submits some useful suggestions which would be found beneficial by all executives, managers and the strategic management of HLL and Godrej. These recommendations are based on the findings of the study.

- The study suggests that HLL and Godrej should strengthen business relationships with all the stakeholders and should
give top priority to the protection of their investments and interests.

- It is suggested that employees empowerment programmes should also be formulated and implemented because without the real involvement of people, good corporate governance is not possible.

- All efforts should be made towards the adoption of TQM and its various offshoots as – quality of work life, good corporate culture, benchmarking activities, corporate re-engineering programme and adoption of green marketing practices and taking all proactive efforts in this direction.

- It is suggested that high standards of performance should be set for each and every individual in the organisations which would help in the adoption of good corporate governance. Side by side, the strategic management should also adopt good practices in all the functional areas.

- Social audit is also necessary because organisations are the part of the environment. All efforts should be made HLL and Godrej on safety management and energy conservation.

- Though HLL and Godrej are fully conscious of their social responsibilities and have devised a robust social security measures yet much more is expected of them. It is suggested that they should strengthen environmental audit which will be helpful in corporate governance.
It is suggested that greater efforts should be made towards a multicultural concept because both of the organisations (HLL and Godrej) are global organisations employing a good number of experts and professionals from various parts of the globe.

The corporate policies of the HLL and Godrej should coincide with socio-economic objectives of the nation by being vibrant and viable organisations catering to the needs of the community.

It is suggested that HLL and Godrej should do their best towards resource mobilisation for accomplishing the set targets. The value systems should also be strengthened in the greatest interests of stakeholders.

It is suggested that personnel policies, code of conduct, standing order should be revised so as to inculcate the high standards of corporate governance practices.

Some of the general suggestions which will help towards the attainment of perfection are – green marketing practices, high value to ethical standards, employees empowerment programmes, visionary and dynamic leaderships, innovative ways of designing the organisations and productivity movement through collegial efforts.
Thus, the researcher hopes that the recommendations given above, though general in nature, would help the organisations and strategic management of HLL and Godrej to achieve world class excellency in all fields. The researcher would be fully awarded if the recommendations and observations given by him get proper feedback and due consideration by the HLL and Godrej people. There is no end to this issue.

There are various other areas which need special studies and the researchers would select those areas for intensive and extensive studies. These areas may be accounting standards and their implications, strategic leadership and control, environmental and resource analysis, environmental and social audit, value systems and strategic intents.


Page 207
10. Goyder, Mark.

11. Gupta, Pardeep and Dr. Chandra Shekhar.


13. Hosmer, Larue Tone.


15. Noville Bain & David Band.

16. Parekh, Deepak S.

17. Paine, Lynn Sharp.


"Winning Ways Through Corporate Governance", Mackays of Chatham PLC, Chatham Kent, 1996.


"Managing for Organizational
Integrity, Critical Decisions – Cases in Leadership Ethics and Organizational Integrity”, Chicago, Irwin 1996.


HLL from 2001 to 2006.


Shyam Sunder Sharma
Research Scholar