Shine the light

In less than two decades, four committees have reviewed corporate governance in India with the aim of raising the standards on the boards of over 5,000 listed firms. The Uday Kotak-led committee, mandated by Sebi, is the latest to come up with recommendations. This committee was formed in June - in the backdrop of public skirmishes in some of India's storied corporate houses and firms with promoters or founders and professional managers ranged against each other in a battle for control, raising uncomfortable issues relating to transparency and accountability and the role of independent directors.

The committee makes recommendations for providing a more egalitarian board environment, one that is conducive to debate - separation of roles of chairperson and CEO or managing director, more disclosure on board evaluation, mandating that at least half of the board should comprise independent directors with effect from April 1, 2019, for the top 500 listed entities, thrusting greater responsibility on audit and remuneration committees and sharing of information with controlling promoters or shareholders by nominee directors and a check on related party transactions. Some recommendations have drawn flak - the one for listing out the educational qualifications and expertise in an industry for board members has been described by Railway Minister Piyush Goyal as "off the mark". But the wider question is this: Can rules mandating corporate behaviour help achieve the aim of greater accountability on the part of boards and lead to investors making better and informed investment choices?

A World Bank report has indicated how even in some robust regulatory regimes, firms engaged in "grudging or boilerplate" compliance by not adequately revealing ownership control structures. In the Indian context too, it is clear that if corporate governance reforms are to succeed, both institutional and other investors will have to step up, shed their passive role and approach. Under Prime Minister Shinzo Abe, Japan has attempted to nudge its asset managers to be more forceful and to publicly disclose the voting records for each investee company through a Stewardship Code and Corporate Governance Code. Ideally, one of India's top institutional shareholders should have fulfilled this role and encouraged more open communication by firms. The fact that the burden of ensuring good governance on corporate boards still rests on regulators is a sad reflection on not just prevailing standards but also on the government - many listed firms have failed to follow rules of governance in both letter and spirit. There is much at stake in this if India is to continue to attract capital flows and to sustain the momentum generated by mutual investors over the last few years.

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