Valedictory Speech of Dr. M. Veerappa Moily
International Conference on Corporate Governance & Sustainability

"Enhancing Effectiveness of Boards through Corporate Governance Best Practices"
September 16, 2011 Mauritius

Introduction:

The subjects of corporate citizenship and sustainability in business are evolving worldwide. Corporate events coupled with dynamic shifts in the economic and business cycles are leading to newer and innovative sustainability theories and facets. Different countries, jurisdictions, companies and practices are contributing to this overall advancement – thanks to the global media and the internet which now enable news to travel faster and reach more people than ever before. The international nature of business and growing collaboration is leading to countries and corporates to learn from each other's experience with an endeavor to raise their overall standards.

As corporates redefine their responsibility and accountability strategies, sustainability in business is being achieved with the usage of corporate citizenship as a tool to internalize sustainability commitments. In India, we realize that institutional support will be instrumental in ensuring sustainable development with a rational, reasonable and humanist approach.

India: Preferred Investment Destination:

Corporate Governance is of immense economic and social value. I feel that it is because of the trust reposed by investors in effective corporate governance of India Inc. that Indian economy is performing well and indeed attaining appreciation worldwide despite the worldwide recession and continuing fears of crisis. The unprecedented growth of Indian corporate houses has made the entire world look up to us. It is this strong faith of the investor community that India has not only emerged as a preferred destination for investment but also a world market with great trade potential. With this worldwide recognition of India's tremendous business opportunities, the need to create an environment for sustainable business is primary. India is not only considered globally as a potential business destination but also as a hub of talent where the due to the demographic dividend, the young population is capable of meeting both domestic and international challenges.

Noblie Prize winner Joseph Stiglitz has rightly said:
"***Strong competition policy is not just a luxury to be enjoyed by rich countries, but a real necessity for those striving to create democratic market economies***"

In his budget, **Dr. Manmohan Singh**, then the Finance Minister underlined, "***no power on Earth can stop an idea whose time has come***" and that "**It is essential to increase the degree of competition between firms in the domestic market so that there are adequate incentives for raising productivity, improving efficiency and reducing costs".**

The encouraging growth predictions, which peg India's economic growth at higher rates than China within another two years, hinge on another crucial factor of 'demographic dividend', which is in the country's favour. With the rapidly declining age profile, India has the fastest growing population of workers and consumers. In 2020, the average age in India will be only 29 years, compared with 37 in China and the United States, 45 in Western Europe and 48 in Japan.

Public procurement accounts for around 25-30% of GDP in India; substantial savings can be achieved by infusing greater competition in the procurement process. Prime Minister announced recently, Public Procurement Act will be introduced in "the forth coming winter session of Parliament. 15 lakh crore worth of procurement is carried out by the Central Government. We do not have either a National Procurement Policy or a law- while corruption is a serious issue, we need to combat the challenge of robust growth.

The new Economic Policy, 1991 triggered the dynamic forces of competition in the Indian economy, which unleashed tremendous growth momentum across sectors in the subsequent years. From the 'Hindu rate growth' the economy made a quantum leap onto the higher trajectory of 6-7% growth in the late nineties and clocked around 9% growth during 2003 to 2007. However, the full growth potential of the economy remains yet to be realized. Removal of the competition bottlenecks and infusion of greater degree of competition can play a catalytic role in unlocking the growth potential in many critical areas of the economy, which hitherto has been held back by restriction on competition in various forms.

‘The Competition Solution’ in their books have concluded that the competitive pressures have helped suppress inflation, raise living standards, and pushed manufacturing productivity up by 4% a year.

New Zealand and England: Pro-competition policy in New Zealand and the UK added around 2.5% to their employment rate over 1978-1998.

Australia: An Australian Productivity Commission study estimates that average Australian household annual income was a$7,000 higher on account of Competition Policy. Australian GDP increased by 5.5% or $ 23 billion a year and average employment rose by 30,000.

Japan: estimated that prices went up on average by 16.5% by recent cartels.

Sweden and Finland: competition authorities observed price declines of 20-25 percent following enforcement action against asphalt cartels.

United States of America: estimates suggest that some hard core cartels can result in price increases of up to 60 or 70 percent. Based on a review of a large number of cartels, it is estimated that the average overcharge is somewhere in the 20-30 percent range, with higher overcharges for international cartels than for domestic cartels.

India could emerge as the world's third largest economy by 2030, benefiting from strong domestic demand and favourable demographics. India is likely to grow faster, than China over the next two decades. It should be recalled that very few nations have sustained higher growth rates in the long run and even those who did - like the East Asian Tigers - are now suffering from prolonged recessions like that in Japan. Hence, there is no room for complacency as maintaining the present level of high GDP growth rate over the next two decades would certainly be no easy task as it requires several critical sectoral reforms requiring strong political consensus cutting across parties and regions in the larger interest of the country.

*The importance of 'sustainable consumption' is aptly highlighted in Mahatma Gandhi's words, '***the rich must live more simply so that the poor may simply live***'*

We need to ensure that the corporate sector creates a governance culture that is able to generate wealth in a sustainable, ethical and socially beneficial manner and fulfils its obligation to all the stakeholders.

Our goal is to transform India as the most favourable destination for business with a view to attract increasing levels of domestic and foreign investment for rapid growth and development. We keep in mind our larger objective of achieving high GDP growth with an inclusive dimension in our developmental efforts. We are attaching great significance to green initiatives in the Ministry towards the eventual goal of becoming the first "Paperless Office of the Government of India".

Role of the Ministry of Corporate Affairs:

Ministry of Corporate Affairs is poised for creating an enabling and conducive regulatory environment which shall not only enthuse the confidence of the investors - both domestic and foreign - but shall greatly help the corporate community to bring in place a system which is easy, self-regulated and transparent. This is in line of our role to act as a catalyst to help corporates meet the expectations of society on the various aspects of corporate governance and citizenship.

As I highlighted yesterday, we have been taking various initiatives as a part of our sustained efforts to enable the corporate community meet the multifarious global challenges. We are endeavoring to provide the desirable regulatory regime to encourage corporate governance and investor protection which is essentially disclosure based with inherent features of flexibility. We believe in adhering to practices and behavior by businesses beyond the laid down regulations which boosts investors' confidence, especially of the small investors – whose contribution and participation in the overall growth and development of the economy is crucial.

National Voluntary Guidelines on Social, Environmental & Economic Responsibilities of Business

Urged by the Prime Minister's Ten Point Charter, my Ministry and the Indian Corporate Sector are now trying to ensure that economic growth is socially and environmentally sustainable. To facilitate this sustainable growth and guide the corporate sector in their efforts towards inclusive development, MCA has issued the National Voluntary Guidelines on Socio-Economic and Environmental Responsibilities of Business.

Urging businesses to embrace the "triple bottom-line," the Guidelines have been articulated in the form of nine principles with the core elements to actualize each of the principles. The principles guide that businesses should conduct and govern themselves with ethics, transparency and accountability. They should provide goods and services that are safe and contribute to sustainability throughout their life cycle and engage with and provide value to their customers and consumers in a responsible manner. While respecting and promoting human rights and the wellbeing of all employees, businesses should respect interests of, and be responsive towards all stakeholders, especially those who are disadvantaged, vulnerable and marginalized. Businesses, when engaged in influencing public and regulatory policy, should do so in a responsible manner. The principles asset that business should respect, protect, and make efforts to restore the environment while supporting inclusive growth and equitable development.

Harmonization of governance, sustainability and social responsibility:

Public and private-sector institutions should continue to raise awareness on the value good corporate governance creates for all groups of stakeholders. Economies should work towards full convergence with international standards and practices for accounting, audit and non-financial disclosure. Boards of directors must improve their participation in strategic planning, monitoring of internal control systems and independent review of transactions involving managers, controlling shareholders and other insiders. Industry bodies and professional institutes must encourage companies to adopt combined corporate governance and sustainability model by awarding exemplars in the field and create industry peer pressure.

Companies should measure and report their overall 'carbon footprint' or social value created (SROI – Social Return on Investment) along their entire value chain. Civil society, bilateral development agencies and multilateral development banks have an essential role to play in leveraging the necessary resources, knowledge and systems to address the challenges of climate change and development. Companies should explore and review a full range of financing strategies for their engagement in the climate change, poverty reduction and development agenda.

Governance practices which best demonstrate corporate social responsibility principles include disclosure, accountability and transparency, board diversity, executive compensation and risk management as the most critical areas of connection. Organizations must on their own accept responsibility and focus on rebuilding a better business model that is both profitable and sustainable. Board members and senior management must now focus on how to design sustainable business strategies. These strategies must seek to not only provide a return on investment, but to also generate "shared value" for society and to promote environmental and business model sustainability. The Board of Directors as well as third parties who play the trusteeship role vis-à-vis investors have a potentially critical role in providing investor-friendly provisions that protect shareholders from abuses by large shareholders, managers, and other corporate insiders.

Disclosure, transparency and accountability are key cross-over practices. Companies need meaningful disclosure of social, environmental, and ethical issues so they and others can see beyond window dressing — disclosure needs to speak to issues of risk management and strategic advantage, which link to economic issues for the company. Governance oriented disclosure should review the progress of corporate citizenship integration.

Executive compensation can affect corporate social performance. Management incentives and success indicators need to be broadly defined from a long term perspective, not simply for the short term, in order to provide the incentives to encourage CSR performance and a holistic approach to risk and opportunity management.

ACCG Corporate Governance Awards

It is a special occasion today since we are giving away Corporate Governance awards. I would like to extend my heartiest congratulations to the winners. Awards uphold the credibility of the winner in an increasingly globalised and competitive world. By motivating the orientation to follow governance and sustainability provisions in both letter and spirit, they reinstate investor confidence in the primary values of accountability and transparency.

Awards not only identify and recognize exemplars, but also, through a two-pronged approach, assist in disseminating experience and knowledge on corporate governance and sustainability related issues across the country. The parameters forming the evaluation criteria for the awards also serve as measurable benchmarks for self-assessment, resulting in adoption of improved governance practices. The winners will also inspire the industry to emulate and foster a culture of good governance.

Conclusion:

The recent situations have placed new demands on the roles of corporates and Board members who need to now realize that there is a strong correlation between corporate competitiveness, corporate governance and corporate citizenship. As Boards and CEOs assess the implications of this in terms of how they run their companies, one thing is certain: corporate citizenship and social initiatives need to and have moved from the margins to the mainstream of government focus and corporate board decision-making.

Growth in the numbers of investors in India has been encouraging. The trends reveal that in addition to FIIs and Institutional Investors, small investors have full confidence in the capital martkets: and we believe and will endeavor that this confidence always remains.