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Inputs received

Corporate governance cries out for reforms

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Corporate Governance Cries out for Reforms



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“The reformer has enemies in all those who profit by the old order and only lukewarm defenders in all those who would profit by the new.” Machiavelli in *The Prince*



I made a mistake. I cheated everyone. I am a fraud but I'll be hiring 25 lawyers to defend myself in the court.

As the country recovers from the jolt received from the Satyam scandal it is important that India Inc. learns its lessons well. A fall in ratings might permanently queer the pitch for high economic growth.

Swift disciplinary action by government institutions and regulators has followed the scandal, sending the right signals to the rest of the world. However, the initiated investigations have to be taken to their correct and logical conclusion. With class action suits lodged against Satyam in the US, it is important for punishment at the national level to match that by

international regulators in both severity and swiftness.

Other wrongdoers – the company's complacent and inactive directors and the auditors who have allowed a financial scam of such gargantuan proportions to take place for years – too should not go scot-free

Ominously, the SEBI chairman has cautioned about the probable opening of a Pandora's box. The tightening of liquidity caused by the financial meltdown might expose the creative accounting efforts of many other firms as these might find themselves scraping the bottom of the barrel.

In other words, the financial meltdown and the resulting recession might expose the mismatch between actual and reported cash reserves of dishonest firms: companies that are reported as being healthy on paper might be suddenly hard put to meet operational expenses. This can only be attributed to either a cooking of accounts or a siphoning of company cash, both major offences. Pro-active swift interventions by the government to nab likely financial offenders are necessary to retain the confidence of national and international investors.

But, as always, prevention is better than cure. Stricter corporate norms and more pro-active financial regulation are needed. Norms pertaining to appointment of directors need to be revised to rule out a stake in profits. Additionally, there should be more provisions for disciplinary action against dishonest/irresponsible auditing.

At the same time the right balance needs to be maintained in investigation and criticism as fulfillment of moral responsibilities is as important as that of legal responsibilities. The media should play its part in a responsible and constructive manner. Initial reactions have not been encouraging as a section has indulged in sensationalism by predicting the downfall of Indian IT sector / India Inc. because of a loss of reputation.

As N R Narayana Murthy has rightly observed, Satyam is an isolated case and does not represent India. This is the message that should be conveyed loud and clear. The pride of corporate India has taken a serious blow, and the onus is on all of us to help salvage it.