

INTERVIEW

The governance of globalisation

The World Council for Corporate Governance, established last year, wants to see globalisation benefit the many, not the few. Issues of globalisation, governance, trade, poverty and sustainability are inseparable, says the Council's president **Dr Madhav Mehra**

Globalisation will only succeed, argues Dr Madhav Mehra, if it is inclusive. If global companies ignore the needs of poor populations, or the cause of the environment, their operations will be socially illegitimate and ultimately commercially unsustainable.

"You simply cannot have globalisation without good governance," says Dr Mehra. "Corporate governance is the key to sustainable wealth creation. I'm not saying we should distribute wealth to poorer people, but governance should be seen as an instrument of social transformation, acting for the long-term benefit of the shared wealth of society."

Dr Mehra is President of the World Council for Corporate Governance (WCFCG). Headquartered in London, the Council's main focus is in emerging and developing markets, especially India. The Council has held two major conferences in the subcontinent. Most recently, in January, the Council held its 2002 conference in Mumbai (Bombay), attracting more than 400 delegates from 18 countries.

More such events are planned. In June, the Council is organising a sustainability programme timed to coincide with World Environment Day, with the Dalai Lama scheduled to attend. In September, a conference will be held in Delhi on the theme: 'Corporate governance – the key to sustainable wealth creation.'

Governance 'in totality'

To Mehra and the Council, issues of governance, environmental responsibility, fair trade, human rights

and high labour standards are inextricably linked. Indeed, it was to pursue these issues in the round that the Council was formed in 2000.

"No one was looking at governance in totality," says Mehra. At the 2000 conference, a "consensus was established that a forum is required to look at these issues" and the Council was formed as a "body to bring all these things together."

The Council's mission statement explores the issues further. A "tectonic shift in public values has made social good a powerful competitive differentiator and, therefore, the corporate governance framework must encompass the issues of environmental and societal responsibility with a view to improving market capitalisation and creating sustainable wealth.

"Globalisation offers immense strength and opportunity to corporations which must be used to create a just and conflict free world to defeat the forces of terrorism and fanaticism."

The WCFCG describes its role as "launching a worldwide movement to change the corporate culture from short termism to sustainability through good corporate governance practices."

Stakeholders, as well as shareholders

An exclusive focus on shareholder value as the be all and end all of corporate success doesn't reflect the reality of value creation in the modern company, argues Mehra.

It was a flaw of governance during the 1990s bull markets, he says, that shareholder value was seen as

companies' only objective, and not the by-product of running a successful business. "Corporate governance was being confined to the disclosure of immediate profits for shareholders," he says, when the challenge at hand is to "create value for the corporation as a whole."

The pressure to produce shareholder value "destroyed wealth on all sides," he says, citing the disaster at Enron which cost employees and shareholders so much. The same focus destroyed value at other companies such as Marconi or Global Crossing. "All these scandals are driven by the fact that people had short-term goals."

Mehra cites one study which found that employees contribute 60 percent of the value that companies generate. This contribution is seldom accounted for, despite the fact that employees can make or break a business. He asks: "Why should employees work in a company that is only shareholder oriented?"

Moving from an industrial to a knowledge economy means that "a lot more value is now created by intangibles," says Mehra.

Key among these intangibles is company reputation. Mehra argues: "Public perception is built by the amount of social good" a company creates. He laments that corporate social responsibility is so often seen by executives as a "drag on the company" when it can actually be a "competitive differentiator," in terms of a sound reputation for making a social, as well as an economic, contribution to the countries in which they operate.

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"This issue has not been properly exploited," he says, though he notes that it is the companies that have most to lose who have been most responsive. He cites the example of Shell's wholesale review of its stakeholder dialogue and CSR policies following the Brent Spar and Nigerian controversies. But it's not just Big Oil that should pay attention to the business risks that a poor reputation can pose. "There are lessons for almost every company," he argues.

He regrets that shareholders and stakeholders are seen as having an "adversarial relationship." He says: "This conflict should never have arisen. The key issue today is to create value for everyone."

Emerging markets

Dr Madhav Mehra hopes that the World Council will eventually have offices across Europe and the US, but for now its focus is mainly on emerging markets. It has head offices in London and Delhi, and satellite offices in several leading Indian cities, supported by the Indian Institute of Directors.

This local presence gives the Council a role on the ground that is lacking in other, more powerful organisations. He says: "The OECD is doing a very good job concept-wise. But where are the effects? You need to look at the grass roots. All these organisations have large budgets. But ask them where the money goes?"

There is a "tremendous need for accountability and transparency in emerging markets." He says: "Corruption in India is a very important issue. No business based on bribery can be sustainable."

Despite the many obstacles, he says "Indian companies are very supportive" of the push for improved governance. Indeed, "they are far more advanced than many in Europe."

The inclusive approach to governance, he says, is strongly supported in India. The country is "is doing its best to bring the poor into the market economy." But this approach does not mean that India, or other developing markets, are hostile to overseas companies. Emerging markets "welcome multinationals," he says. "They recognise that they create jobs."

Mature markets have a key role to play in endorsing and encouraging improved governance in the developing world. Dr Mehra is deeply critical of CalPERS' decision to withdraw its investments for markets deemed to have poor labour standards. Engagement, he says, is always a more productive strategy than exclusion. "By doing this, they are penalising people not politicians. There

are many ways they could exercise pressure. They need to blacklist companies, not markets. Boycotting is the last resort."

Those wanting a deeper understanding of how such engagement can work in emerging markets should look no further than the Council's forthcoming conferences.

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Recommendations of the 2nd International Conference on Corporate Governance – some highlights

- Corporations must recognise that globalisation offers them both the strength and opportunity to usher in a just and conflict free world for their own security, survival and sustainability.
- The scope of Corporate Governance should be enlarged to encompass good governance in all its aspects taking cognisance of the political, administrative, economic, social and judicial environment in which they function. Board of directors ought to balance the interests of capital providers with those of other stakeholders and aim for a long term and sustained business success. Good corporate governance ought to create value for all stakeholders including society at large.
- As the Enron debacle indicates, a good corporate governance code is no guarantee of good corporate governance. There needs to be stricter monitoring and enforcement of laws on punishment for corporate scams to ensure that those who violate the public trust do not go scot-free. Along with a requirement of disclosures and accountability, laws should be amended to mete out swift and deterrent punishment to the offenders.
- Corporate Governance ought to cover disclosures on environmental and social responsibility.
- Sustainability ought to be the end game of business. No business activity that jeopardises the ability of future generations to meet their own needs be permitted.
- There is a need for economic costs to reflect full ecological costs. Accounting practices need to ensure that environmental costs are properly internalized.
- There needs to be greater recognition of the importance of intellectual and reputational capital and the tectonic shift in public values with the onset of knowledge economy.
- There needs to be a greater awareness of the need for Corporate Social Responsibility. An Award to recognize achievements of Corporate Social Responsibility as distinct from the existing award on Excellence in Corporate Governance will be a good way to encourage corporate role towards society.
- It is vital that a Minimal Training Programme should be designed and organized for directors, both executive and non-executive, covering key aspects of good corporate governance and directorial responsibilities - statutory, environmental and social. There should be a compulsory induction programme for institutional nominees.
- Expedient and cost-effective resolution of commercial disputes is an integral part of good corporate governance. There is a need for WCFCG to establish an Arbitration and Reconciliation Centre which offers cost-effective and time-bound resolution of disputes.
- WCFCG should set up a Centre for benchmarking best practices in Corporate Governance.

For the full list of recommendations, see www.wcfcg.net