Corporate Governance: Committing to Stakeholders

The following is the text of the talk delivered by Sanjiv Mehta at our CG Scorecard event in Mumbai on 11 April 2025.

Ladies and gentlemen and distinguished guests, good morning!

Thank you, Amit, and IiAS for inviting me to share my thoughts. It is an honor to stand before you today as we discuss a topic that is not just paramount to the functioning of corporations but also to the broader economic and social fabric of our society, *Corporate Governance – Committing to stakeholders*.

I have had the privilege of chairing public listed and non-listed companies, in India and abroad, play the dual role of Chairman and CEO as well just a CEO, be on the Board of Indian and Foreign companies, family owned, professionally managed and multi-nationals. I will use my diverse experiences to share my thoughts.

At its core, corporate governance encompasses the mechanisms, processes, and relations by which corporations are managed, directed, controlled and operated.

Why should we care about corporate governance? The answer lies in its profound impact on the performance, accountability, and sustainability of organizations.

Strong corporate governance drives transparency and trust - elements that are critical in today's dynamic business environment. It minimizes risks and ensures compliance with laws and regulations, thereby safeguarding the interests of all stakeholders. Companies that prioritize governance are not only more likely to avoid scandals and legal challenges, but they also foster deeper relationships with investors, employees, customers, and communities.

The principles of corporate governance are not new to our nation. ***Indian mythology, ancient scriptures and history offer a wealth of wisdom that can be applied to load of contemporary issues, including corporate governance.*** Let me talk about some governance principles derived from Indian mythological stories, philosophies, and texts that remain relevant to today's corporate governance landscape:

1. **Dharma (Righteousness and Duty)**: The Mahabharata portrays the concept of Dharma, especially through the character of Yudhishthira, who is often seen struggling with moral decisions.

2. **Integrity and Transparency**: The character of Lord Rama in the Ramayana is often cited as the ideal of integrity and transparency; his adherence to truth and transparent actions made him a revered leader.

3. **Balancing Stakeholder Interests**: The teachings of the Bhagavad Gita emphasize the importance of balanced actions and addressing the needs of all stakeholders. Arjuna's dilemma in the battlefield reflects the struggle of balancing personal and collective interests.

4. **Leadership with Empathy**: King Ashoka, after his conversion to Buddhism, is a vivid example of a leader whose remorse for past actions led him to embrace non-violence and compassion for all beings.

5. **Long-term Vision**: In the story of Chhatrapati Shivaji Maharaj, his vision for a self-reliant and just kingdom drove his strategies and actions, focusing on long-term benefits over short- term victories.

6. **Accountability and Responsibility**: The character of Kunti from the Mahabharata, who faced numerous challenges and yet upheld her responsibilities toward her sons, emphasizes accountability in leadership.

7. **Emphasis on Knowledge and Wisdom**: The character of Lord Krishna in the Bhagavad Gita, who serves not only as a charioteer but also as a guide, symbolizes the importance of wisdom and knowledge in leadership.

By drawing lessons from these stories and philosophies, companies can foster ethical leadership, accountability, stakeholder engagement, and a culture of integrity. Integrating these principles can lead to more effective governance structures, aligned with the values and expectations of today's society.

However, ***the various stories from our epics also highlight the stress points*** related to governance, illustrating the challenges and dilemmas faced then which may also be relevant today.

1. **Dharma vs. Adharma (Righteousness vs. Unrighteousness)**: The conflict between the Pandavas and Kauravas is fundamentally about righteousness (Dharma) versus unrighteousness (Adharma). Leaders often face dilemmas when balancing personal beliefs or duties against societal norms and expectations.

2. **The Consequences of Hubris and Ego**: Characters like Ravana in the exemplify how pride and ego can lead to downfall. Ravana, the king of Lanka, was a learned scholar but became arrogant, leading to his eventual destruction. Governance can suffer when leaders prioritize self-interest or personal glory over collective well-being.

3. **The Role of Advisors and Counsellors**: The roles of advisors such as Krishna and Vibhishana are crucial. Their counsel significantly impacts the courses of action taken by the main characters. These narratives illustrate the importance of wise and ethical counsel in governance.

4. **Accountability and Consequences of Actions**: The story of King Harishchandra, known for his unwavering commitment to truth, showcases the trials he faced in adhering to his principles. His dedication led to significant personal suffering, reflecting the concept of accountability.

5. **The Importance of Justice and Fairness**: The Judgement of Yudhishthira, particularly regarding the game of dice, highlights the nuances of justice and fairness. Leaders must strive for fairness and justice in their governance. This narrative emphasizes that governance should not be just about laws but about moral principles that reflect justice, especially in complex situations.

6. **Family and Loyalty vs. Duty**: The tension seen in Lord Rama's choices particularly concerning his duty to uphold his father's promise versus his love for his wife Sita, showcases the conflict between personal obligations and responsibilities to the state. Such scenarios force leaders to navigate conflicting loyalties and duties.

7. **Conflict Resolution and Wisdom in Governance**: The way Krishna handled the complexities of the Mahabharata war showcases strategic wisdom in conflict resolution. His mediation attempts before the war and his role as a charioteer emphasize the importance of diplomacy and negotiation.

8. **Social Responsibility and Welfare**: The notion of Raja Dharma emphasizes that kings and leaders have a duty to ensure the welfare of their subjects. Stories of benevolent kings who ruled for the good of their people, such as Raja Harishchandra and King Ashoka, highlight this principle. Leaders are responsible for their stakeholders and should prioritize their welfare over personal gain.

The stress points on governance found in Indian mythology serve as timeless lessons that are relevant even in contemporary contexts. They illustrate the complex realities leaders face while navigating ethical challenges, the consequences of their actions, and the need for integrity and accountability.

Evolution of Corporate Governance in the Anglo-Saxon World

Corporate governance in the Anglo-Saxon world has undergone significant evolution over the years, adapting to changes in the global economic landscape, societal expectations, and regulatory environments. Here are some key developments and inflection points in its evolution:

1. **Early Concepts and the Separation of Ownership and Control**: The foundation of corporate governance can be traced back to the early 20th century, with the recognition of the separation of ownership and control, particularly in larger corporations.

The book "The Modern Corporation and Private Property" by Adolf Berle and Gardiner Means argued that the modern corporation concentrated power in the hands of a few managers, leading to potential conflicts of interest.

2. **Post-World War II Developments**: After World War II, many countries began to develop formal regulatory frameworks for corporate governance, driven by the need for capital markets to restore investor confidence and stimulate economic growth.

3. **The Cadbury Report (1992) or The UK Corporate Governance Code**: The Cadbury Report was a watershed moment, establishing key principles for corporate governance, including the importance of independent directors, the separation of the roles of chairman and CEO, and the necessity for auditing and internal controls. This report significantly influenced governance codes worldwide.

4. **Corporate Scandals and Regulatory Responses**: In the late 1990s to early 2000s, scandals like Enron, WorldCom, and Tyco led to a crisis of confidence in corporate governance practices. In response to these scandals, the U.S. enacted Sarbanes-Oxley Act (2002), this landmark legislation aimed at improving corporate governance and accountability in public companies.

5. **Globalization and Convergence of Standards**: With globalization, there was a push for convergence of governance standards. The OECD Principles of Corporate Governance (2004 and revised in 2015) provided a framework for countries to develop their governance systems.

6. **The Financial Crisis of 2008**: The 2008 financial crisis prompted a major re-examination of corporate governance, particularly around risk management, executive compensation, and the role of financial institutions.

7. **Rise of Activist Investors and Stakeholder Primacy**: The rise of activist investors who advocate for changes in corporate governance and strategies has become notable, with a focus on accountability and value creation.

8. **COVID-19 Pandemic and Remote Governance**: The COVID-19 pandemic accelerated the digitization of governance practices, with remote governance becoming a norm. Companies had to reassess their governance frameworks in the face of disruption, focusing on resilience, agility, and transparency.

India’s Corporate Governance Evolution

India's corporate governance landscape has also evolved significantly over the past few decades, shaped by various inflection points that reflect changes in the economic environment, regulatory framework, and societal expectations.

1. ***Economic Liberalization (1991)***: The liberalization of the Indian economy in 1991 marked a significant turning point. It opened Indian markets to foreign investment and competition, necessitating the development of robust corporate governance frameworks to attract investment and build credibility.

2. **The Kumar Mangalam Birla Committee Report (1999)**: This report established several key principles for corporate governance in India, including the importance of independent directors, audit committees, and the need for disclosing financial information. This laid the foundation for the first comprehensive corporate governance guidelines in India.

3. **Satyam Scandal (2009)**: This fraud, one of India's largest corporate governance failures, highlighted significant deficiencies in oversight and accountability. The scandal shook investor confidence and raised questions about the integrity of board practices. In response, the Securities and Exchange Board of India (SEBI) tightened regulations, leading to the establishment of more stringent corporate governance norms, including those pertaining to board composition, audit committees, and disclosure requirements.

4. **The Companies Act (2013)**: The enactment of the Companies Act, 2013,

marked a significant overhaul of corporate governance legislation in India. This Act introduced vital reforms, including enhanced disclosure norms, stricter penalties for non-compliance, and provisions for greater shareholder rights. It also mandated that companies meeting certain criteria devote a percentage of their profits to CSR activities, reflecting the growing expectation for companies to contribute positively to society.

5. **The Kotak Committee Report (2018)**: The Kotak Committee was formed to review governance practices across listed companies in India and proposed several recommendations aimed at strengthening governance standards. This included improving board independence, enhancing the role of audit committees, and promoting diversity in corporate boards.

6. **Focus on ESG and Sustainability (2020s)**: There has been an increased focus on Environmental, Social, and Governance (ESG) considerations, driven by changing investor preferences, regulatory expectations, and global trends. Companies are now expected to integrate ESG factors into their governance frameworks and operational strategies.

7. **COVID-19 Pandemic (2020):** The pandemic necessitated a swift adaptation to new governance practices, including remote working, virtual board meetings, and enhanced focus on employee well-being and stakeholder communication. Companies had to demonstrate resilience and agility while maintaining transparency and accountability.

The evolution of corporate governance in India has been marked by critical inflection points that reflect broader economic changes, regulatory developments, and societal expectations.

As the landscape continues to evolve, there will be an ongoing need for companies to embrace higher standards of governance to build trust and ensure sustainable business practices.

What are the areas of improvement relating to corporate governance in India?

1. **Insider Trading:** This undermines investor confidence and market integrity. Despite regulations, enforcement is often insufficient, resulting in a culture where such practices can go unchecked.

2. **Board Independence**: The effectiveness of independent directors is frequently questioned due to insufficient autonomy. Many boards remain dominated by promoters or majority shareholders, impacting the independence and objectivity of board decisions. Although regulatory changes have tried to improve board

independence, issues remain with the selection process and the actual influence of independent directors in decision-making.

3. **Transparency and Disclosure**: Many companies still exhibit inadequate disclosure practices, not fully meeting the expectations outlined by regulatory frameworks. This includes delays in financial reporting, incomplete disclosures regarding related-party transactions, and a lack of clarity regarding executive compensation.

4. **Regulatory Framework and Enforcement Mechanisms**: While India has made strides in establishing a regulatory framework (e.g., Companies Act 2013, SEBI regulations), implementation and enforcement of these regulations often fall short. Regulatory bodies may lack the resources or political will to enforce compliance effectively.

5. **Corporate Social Responsibility (CSR) Compliance**: Though the Companies Act mandates certain companies to undertake CSR activities, genuine commitment to CSR often appears lacking. Some companies treat CSR as a box-ticking exercise rather than integrating it into their core business strategy.

6. **Lack of Diversity**: The representation of women and other underrepresented groups on corporate boards remains alarmingly low. Diversity in leadership can enhance decision- making quality and company performance, but India still struggles with inclusive governance practices.

7. **Stakeholder Engagement**: Businesses may not adequately engage with a broader range of stakeholders, leading to disconnections between corporate strategies and societal expectations. Companies often prioritize short-term profits over long-term relationships with stakeholders, including employees, customers, and communities.

While corporate governance in India has made significant progress, the challenges outlined above highlight the need for systemic reforms and a cultural shift toward greater accountability, transparency, and inclusiveness.

Addressing these issues requires a multi-faceted approach involving regulatory enhancements, greater awareness and education about corporate governance principles, and a commitment by companies to uphold ethical standards in their operations.

Why do we need to raise corporate governance standards in India?

In India, while we have made significant strides in establishing governance frameworks, there is still much work to be done. We must elevate our standards to compete on the global stage while building investor confidence and enhancing brand reputation.

Strengthening our corporate governance is essential for attracting foreign investment, promoting responsible business practices, and fostering economic growth. It's imperative that we embrace the best practices, learn from global leaders, and tailor them to our unique context.

Current Trends and Future Directions

1. Technology

Let me start by talking about technology. The rapid evolution of artificial intelligence (AI) will reshape every industry, business models, and stakeholder interactions. As AI technology becomes increasingly integrated into corporate strategies and operations, corporate governance must also adapt to address the unique challenges and opportunities presented by this transformation. In today's AI-driven world:

a. Organizations need to develop dedicated governance frameworks for AI that outline the principles, policies, and processes guiding AI development, deployment, and oversight. The board of directors should explore having a dedicated committee or function focused on AI governance.
b. Companies should establish clear ethical guidelines for AI usage, emphasizing fairness, transparency, accountability, and privacy. These guidelines should be embedded into the AI development lifecycle to ensure that AI systems are designed and used ethically. Governance frameworks should include proactive measures to mitigate bias in AI algorithms.
c. Organizations need to assess risks specific to AI, including operational, reputational, legal, and compliance risks. Integrating AI-related risks with overall corporate risk management frameworks will enhance resilience.
d. Companies should be transparent about how they use AI, including data sources, decision-making processes, and algorithms. This communication will help build trust with stakeholders, including customers, employees, and investors.
e. Engaging stakeholders in discussions about AI governance—such as employees, customers, and community representatives—can provide valuable insights and ensure that corporate strategies align with broader societal values and expectations.
f. Strong governance frameworks for data management, privacy, and cybersecurity are crucial as AI systems rely heavily on data. Organizations should implement policies that ensure data is collected, stored, and used responsibly and ethically.

As AI becomes an integral part of the corporate landscape, the evolution of corporate governance will be paramount in ensuring that these technologies are used responsibly, transparently, and ethically. By adapting governance structures to account for AI's unique challenges and opportunities, organizations can effectively navigate the complexities associated with AI while creating value for their stakeholders and society at large. Ultimately, proactive governance will help harness the full potential of AI while safeguarding against its inherent risks.

2. The Multi-Stakeholder Approach

In recent years, we have seen a shift happening towards a multi-stakeholder approach in corporate governance. This perspective recognizes that businesses do not operate in a vacuum. The decisions made within the boardroom resonate beyond just profitability; they impact employees, customers, suppliers, communities, and the environment.

Engaging diverse stakeholders is now seen as crucial for good governance, as it encourages collaboration, innovation, and a more holistic view of success. We must ensure that our governance frameworks consider the needs and perspectives of all stakeholders involved. This collective responsibility can drive more sustainable, long-term performance.

3. The Imperative of Sustainability

We are living in a time of unprecedented challenges: climate change, social inequality, and resource depletion. These issues require a fundamental re-evaluation of how businesses operate. Consumers today are more informed than ever, actively seeking brands that not only offer quality products but those that are genuinely committed to ethical and sustainable practices.

However, as we embrace sustainability, we must also address an emerging concern: the phenomenon of "woke" culture in sustainability. While the intent behind fostering social consciousness is admirable, it has, in some contexts, become counterproductive. A focus on performative sustainability, driven by social media pressures or trends, can lead to actions that may not yield meaningful results.

For instance, initiatives that prioritize image over impact can detract from genuine efforts toward sustainability. When companies focus on optics rather than substantial and actionable changes, they risk alienating stakeholders and diluting the message of sustainability itself.

Moreover, a polarizing approach may create divisions rather than inspiring collective action. It's essential to foster inclusivity and dialogue around sustainability that allows for diverse views and interests to be represented. Businesses must lead with authenticity, engaging in transparent conversations and prioritizing tangible outcomes over just following trends.

My experience has been that we add luster to sustainability efforts when the business too performs well. Trying to camouflage business 'under performance' by talking about sustainability never yields dividends literally and metaphorically.

Let me now move to the triad of People, Planet, and Profit. These elements are not merely components of a business strategy; they form the foundation of a sustainable future. We must recognize that a thriving economy cannot be built on the exploitation of people or the degradation of our planet.

a. Our journey must begin with people
Empowering employees and promoting diversity, equity and inclusivity are not just good practices; they are essential for a sustainable future. When we create equitable workplaces and engage diverse voices, we harness the creativity and innovation necessary to tackle our most pressing challenges.

b. Profits Through Purpose
In alignment with the multi-stakeholder approach, the idea of "profits through purpose" has gained traction. Companies that prioritize purpose tend to perform better than their counterparts that are solely profit-driven. When organizations embrace a mission that transcends financial gain—one that aims to positively affect society and the environment—they rally the support of consumers and employees alike.

Profitability and purpose are not mutually exclusive; rather, they are interconnected. By aligning business objectives with societal needs, corporations can build lasting brands that resonate with their audiences. This approach not only draws loyalty but also attracts top talent, fostering a culture of passion and engagement.

c. Profit - the lifeblood of any business.
Sustainability should not be seen as a cost but as an investment in the future. Businesses that prioritize sustainability often discover that the returns are substantial. They enhance brand loyalty, attract new customers, and unlock new market opportunities. Till the seventies and eighties, the popular notion was that improvement in quality will come with increase in costs. The Japanese through the auto industry and using practices life TQM, TPM, JIT etc proved that we can improve quality and reduce the costs at the same time. We are now at a juncture

where improved quality in terms of meeting consumer needs and reducing costs should go with more sustainable products.

Research and case studies demonstrate the connection between sustainable practices and financial performance. Those who embrace sustainability often outperform their peers financially, confirming that doing good can indeed lead to doing well.

Balancing the Trinity: Challenges and Opportunities

Of course, we must acknowledge the challenges we face in balancing these three pillars. There may be tensions, where short-term costs may outweigh immediate benefits. However, this also highlights the need for collaborative approaches among corporations, governments, NGOs, and communities.

We must champion innovative business models that allow us to pursue profit while adhering to our commitments to people and the planet. Purpose-driven brands and Corporations show us that a new era of business is not only possible but also profitable.

Call to Action

Happenings across the Atlantic, or tech companies CEO's scrapping their DEI initiatives would have seeded doubts in your mind. Even the last Annual letter of the Blackrock CEO did not mention the words ESG.

These are tough challenges. We should not revert to the days of Milton Friedman. We need leaders who believe in 'Profits thru Purpose'. I urge each of you to reflect on your roles within your organizations and communities. What steps can you take to drive measurable sustainability goals? How can you ensure that your sustainability efforts are rooted in genuine impact rather than mere optics?

Let us remember that we are at a pivotal moment in history. Each of us has the power to make a meaningful impact, whether as individuals or as leaders within our organizations.

In Conclusion

In closing, the evolution of corporate governance has been marked by significant milestones driven by external pressures, crises, and societal changes. As we look ahead, the governance landscape will likely continue to evolve, shaped by growing expectations for accountability, transparency, and the role of corporations in addressing global challenges. The journey of corporate governance is ongoing, influenced by a complex interplay of factors that will require adaptability and foresight from all stakeholders.

The above is the text of the talk delivered by Sanjiv Mehta at the IiAS CG Scorecard event in Mumbai, on 11 April 2025.

Sanjiv Mehta is Executive Chairman of L Catterton India and Chairman of L Catterton Asia. He is also the President Commissioner (Non-Executive Chairman) of PT Unilever Indonesia TbK. Sanjiv Mehta has been the Chairman / CEO and Managing Director (2013-23) of Hindustan Unilever Limited (HUL). He currently serves on the boards of a few companies.

The Indian Corporate Governance Scorecard (Scorecard) provides a standardized and objective evaluation framework which can be used by companies, regulators, and other stakeholders to assess companies' corporate governance practices. For the most part, the benchmarks embedded in the Scorecard are independent of regulatory requirements – helping market participants approach governance as a principle-driven, and not compliance, exercise.

Based on the G20-OECD Principles of Corporate Governance, the Scorecard was originally developed by Institutional Investor Advisory Services India Limited (IiAS) jointly with International Finance Corporation (IFC) and Bombay Stock Exchange (BSE). The original project was supported and sponsored by the Japan Ministry of Finance. The current derivative framework has been developed by IiAS in January 2025

Read more about the Governance Scorecard:
https://www.iiasadvisory.com/governance-Scorecard

This is the text of the talk delivered by Sanjiv Mehta at the IiAS CG Scorecard event. These views are subject to change, revision and rethinking at any time. Please do not hold the author to them in perpetuity.

About IiAS

Institutional Investor Advisory Services India Limited (IiAS) is an advisory firm, dedicated to providing participants in the Indian market with independent opinions, research and data on corporate governance issues as well as voting recommendations on shareholder resolutions for over 1,200 companies that account for over 96% of market capitalization.

IiAS provides bespoke research and assists institutions in their engagement with company managements and their boards. It runs two cloud-based platforms, SMART to help investors with reporting on their stewardship activities and ADRIAN, a repository of resolutions and institutional voting pattern.

IiAS jointly with the International Finance Corporation (IFC) and BSE Limited, has developed a Corporate Governance Scorecard for India to evaluate company's governance practices and market benchmarks.

IiAS is a signatory to UN supported Principles of Responsible Investment (UNPRI). In January 2023, IiAS also became the first domestic firm to issue a Second Party Opinion when it carried out an assessment of the framework for sovereign green bonds issued by the Government of India.

IiAS Sustainability Solutions Private Limited (IiAS Sustain), a wholly owned subsidiary of Institutional Investor Advisory Services India Limited (IiAS) has received registration as a Category – II "ESG Rating Provider" from the Securities and Exchange of India (SEBI).

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