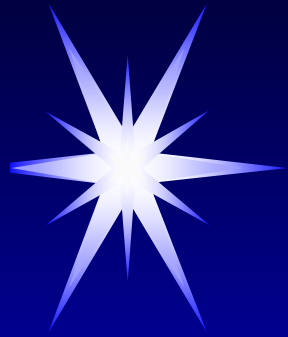


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Good Corporate Governance is Good Business an Empirical Evidence

Presentation by

M.K. Chouhan

Chairman, Mahendra & Young Knowledge Foundation

Vice Chairman, Global Advisory Board - Asian Centre for Corporate Governance

email : mkchouhan@mahendrayoung.org

9th International Conference on Governance & Sustainability

Hotel Taj Mahal, Mumbai, Nov 20, 2008

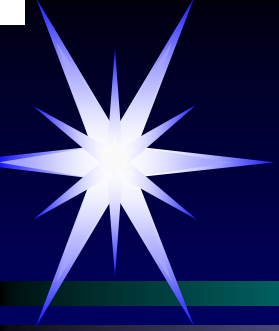
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Presentation will cover

- Ensuring Competitiveness of Capital Markets
- Trends in Capital Markets
- Sources of competitive Advantages
- Empirical Evidence on Good Governance is good business.
- Future Directions in CG – few suggestions.



Ensuring Global Competitive Capital Markets

- Convergence of CG codes world wide
- Striking similarities among CG codes from US, Europe, Asian countries
- In some way they are re-incarnation of ‘Sarbanes Oxley’
- Then what can be the differentiator for making capital Markets competitive ?

Implementing Effective regulation is the key.



Changing trends in ownership

- Today, ownership patterns differ significantly in many jurisdictions from the dispersed ownership model which, until now, has governed regulatory and corporate governance theory and practice.
- Corporate ownership structures began changing, first in the U.S. and Britain, in the second half of the twentieth century, led by established financial intermediaries (pension funds, mutual funds, insurance companies, and banks)



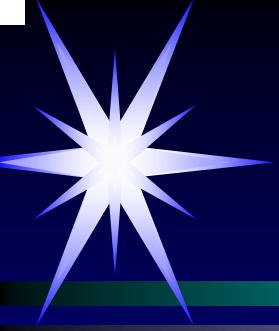
Changing trends in ownership

- more recently, by new intermediary forms (hedge funds, private equity funds, activist funds, and publicly held private equity funds).
- These changes may impact the governance of the corporation, its efficiency & performance, and the motivation and actions of the board and management, in significant ways.



1996 to 2006 (10 yrs) Mkt Cap Trends

- North America Mkt. Cap rose from
US \$ 8.9 trillion to \$ 23 trillion
- Europe / Middle East/ Africa Mkt. Cap rose from
\$ 5.1 trillion to \$ 16.2 trillion
- Asia Pacific Mkt. Cap rose from
\$ 5 trillion to \$11.8 trillion

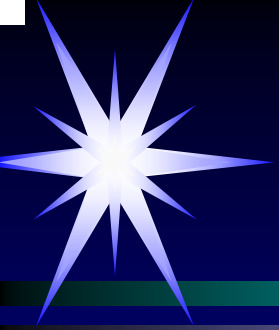


Corporate governance Implementation - A Global view

September 2007 survey of 1600 companies*

- 62 % of Companies have more than 1/3rd ID's
- Proportion pf ID's varies greatly between countries.
- 90 % of companies in North America , UK, Switzerland , Netherlands, Norway, Finland, Austria have more than 1/3rd ID's
- Germany, Austria & Japan have less than 10 % ID's

* **Source : Ethical Investment Research Services(EIRIS) UK**



Corporate governance Implementation - A Global view

- 96 % of all companies disclosed Director Remuneration
- 90 % of Companies from half of companies studied , separated the position of chairman from that of CEO
- 30 % US Companies have separate Chair & CEO
- 54% Japanese Companies have separate Chair & CEO
- 56% French Companies have separate Chair & CEO



Few Questions to be pondered

- How influential is governance in attracting capital?
- What are the key governance principles that need to be adopted in all capital markets to make them more effective?
- Can governance pressures create an environment where all markets are forced to adopt best practice to remain competitive ?

Source:Hermes Stewardship Conference 2007 London



What is good Governance

- Balance of Power defines good Governance.
- Each governance system has a distinct “balance of power” and set of tradeoffs among 1) shareholders, 2) boards and 3) managers...

Reinier r. Kraakman et.al, *The Anatomy of Corporate Law* (2004) p 67.

- Today in most jurisdictions the Balance of Power is tilted towards ‘management’.



What is Good Governance

Transparency standards in line with international requirements

- Comprehensive disclosure of all relevant financial and non-financial information
- High compliance with international accounting standards (IFRS)
- Timely disclosure of share-dealings by insiders and controlling shareholders
- Clarity and comprehensiveness of the information
- Equal distribution of information to all shareholders

Source GCGF- Private Sector Opinion by Christian Strenger

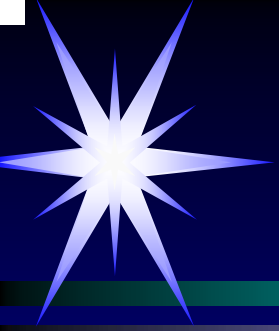


What is Good Governance

Convincing independence and quality of boards and auditors

- Sufficiently independent non-executive directors with high qualifications
- Board committees with at least a majority of independent members
- Sufficient auditor independence and high work quality

Source GCGF- Private Sector Opinion by Christian Strenger

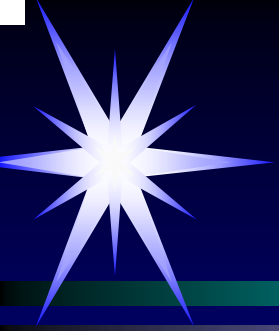


What is Good Governance

Equitable treatment of shareholders

- Low- and non-voting shares a deterrent to investors
- Enable unrestricted cross-border voting and eliminate other voting barriers by electronic and legal means
- Shareholder access to all relevant financial and non-financial information
- Holders of depository receipts to enjoy the same voting rights
- Fair treatment in merger transactions

Source GCGF- Private Sector Opinion by Christian Strenger



What is Good Governance Better Shareholder rights

- The way forward is not to attempt to introduce top-down regulation on corporate governance, but to focus upon enhancing shareholder rights across its member countries. - **European Commission**
- Corporate governance in the US, if it is to result in a meaningful shift in power, will need to evolve to give share-holders greater rights... **Ira Millstein** - Senior Associate Dean, Corporate Governance, Yale School of Management



Is Good Governance Good Business ?

Yes, Empirical Evidence

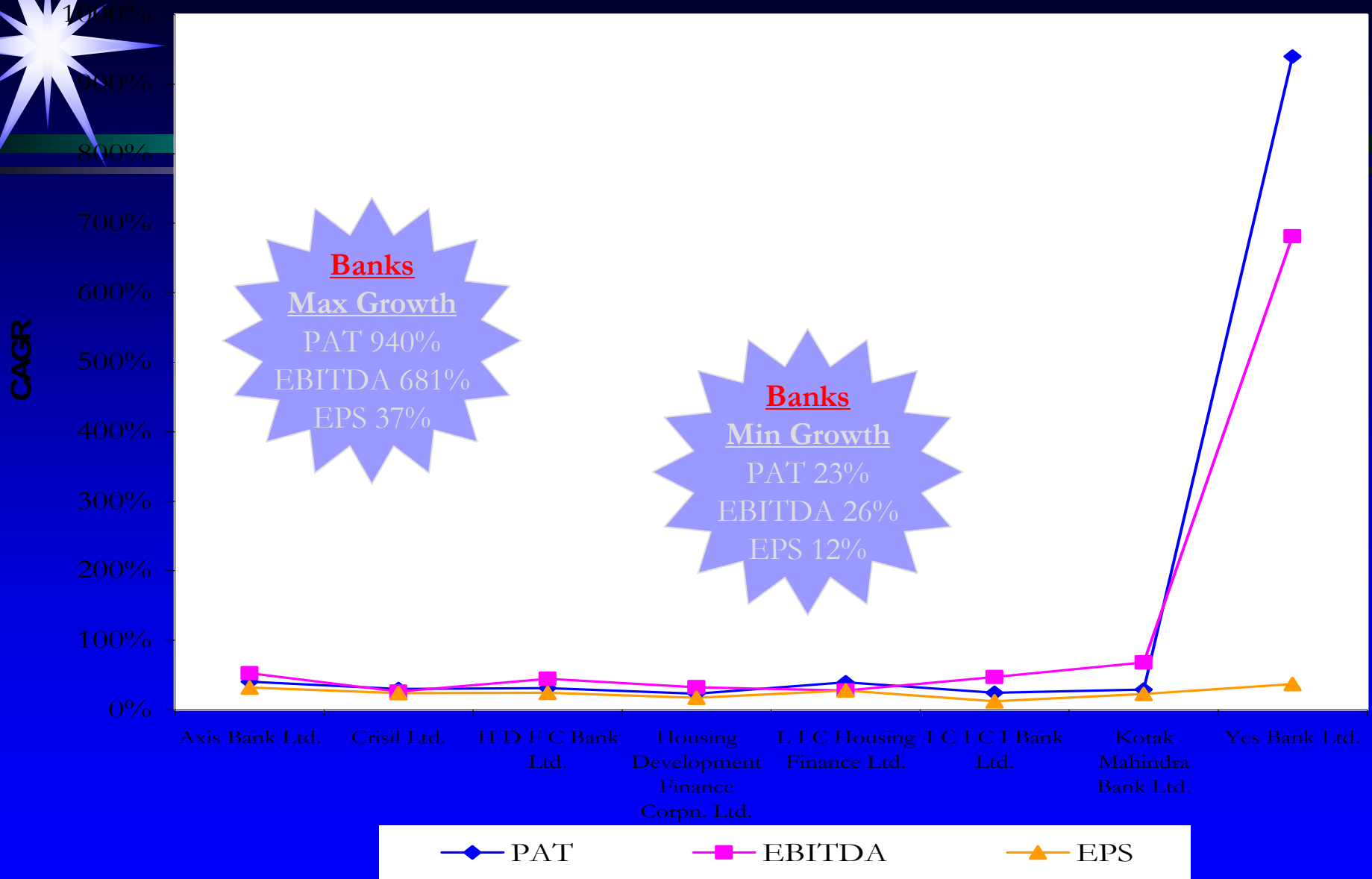
- Research by M.K.Chouhan – MD, mahendra & ardneham consulting (P) Ltd
- &
- Shailesh Haribhakti –Managing Partner & CEO Haribhakti Group



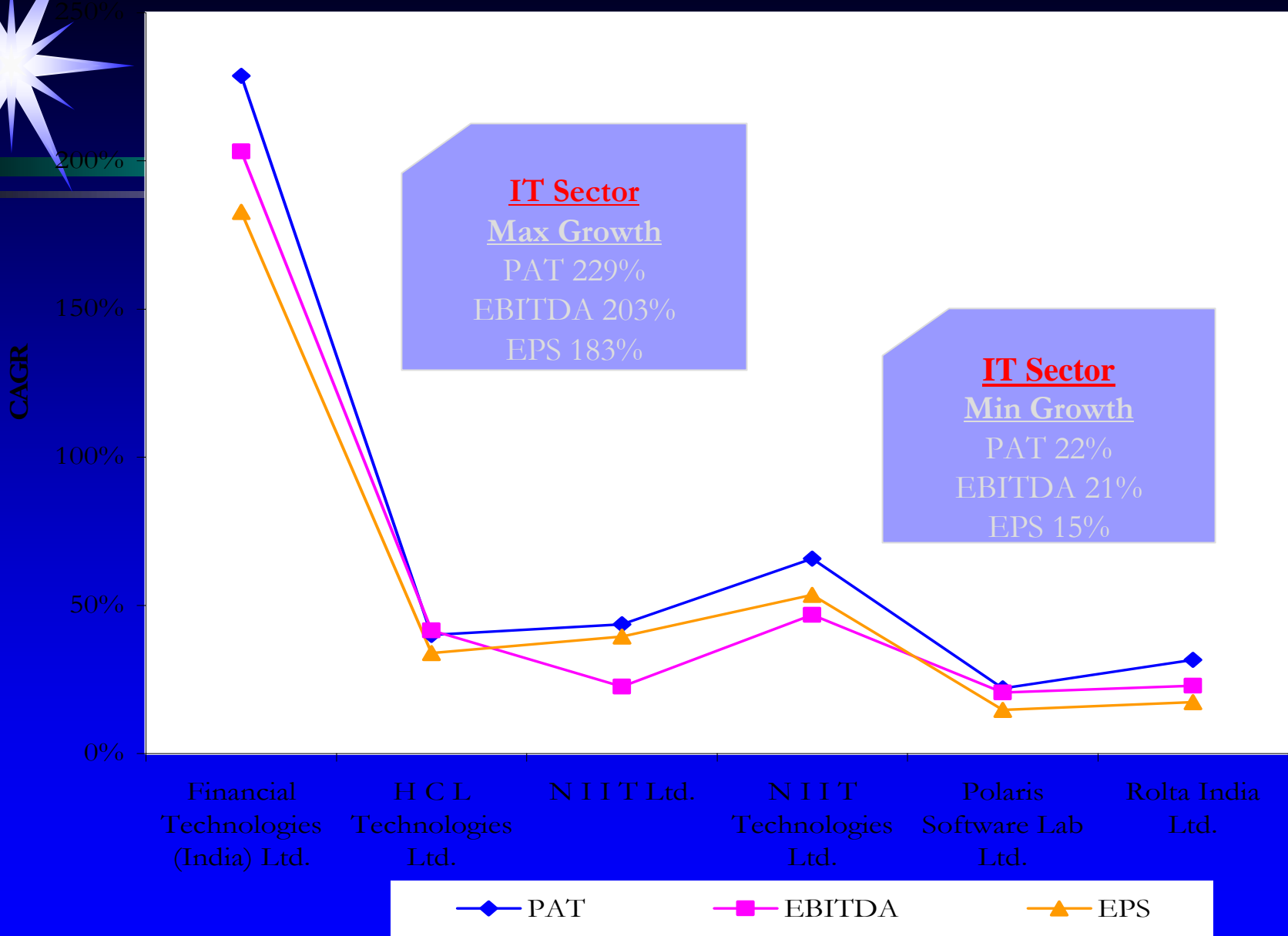
Empirical Research 100 Cos in India

- Universe of 100 Good Governed Companies in India
- Period : Three years from 2005 to 2007
- CAGR of three years back tested for EBPDIT & PAT
- Representative sample covering several Sectors eg Automobile, Realty, Telecom, Pharma, IT, Infrastructure, Media, Entertainment, Power, Retail etc.

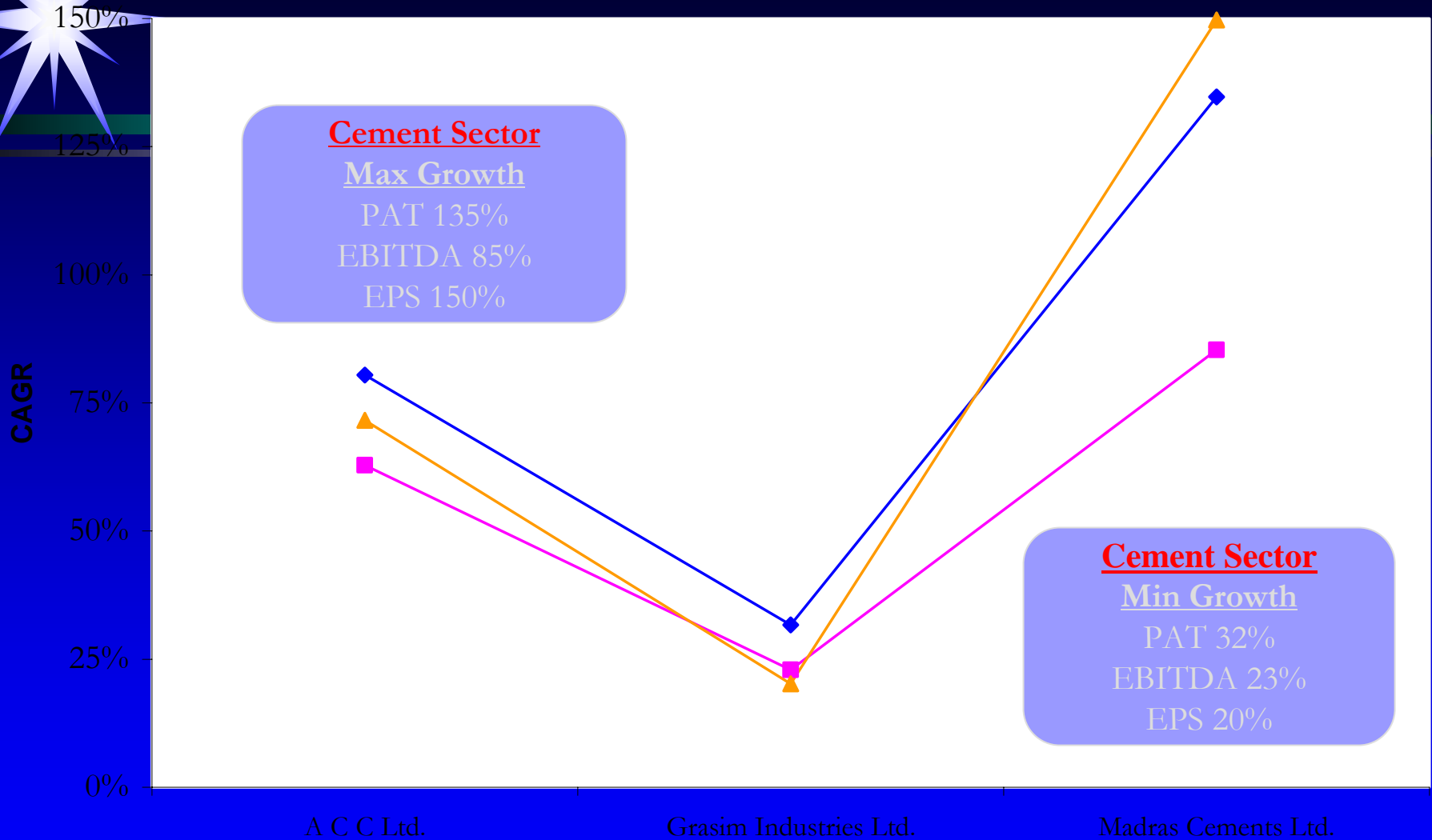
Banking - CAGR for last 3 years



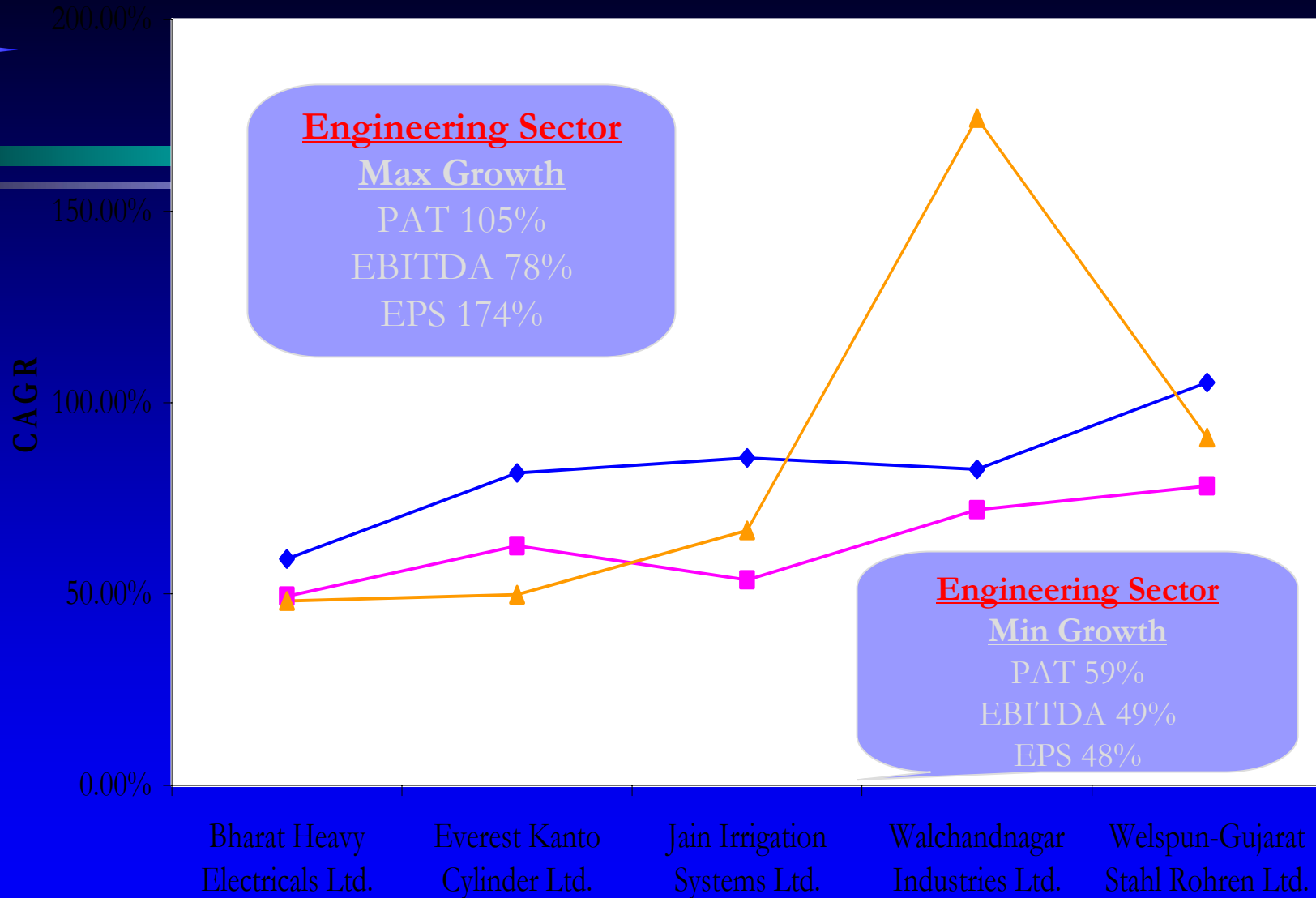
IT Sector - CAGR for last 3 years



Cement - CAGR for last 3 years

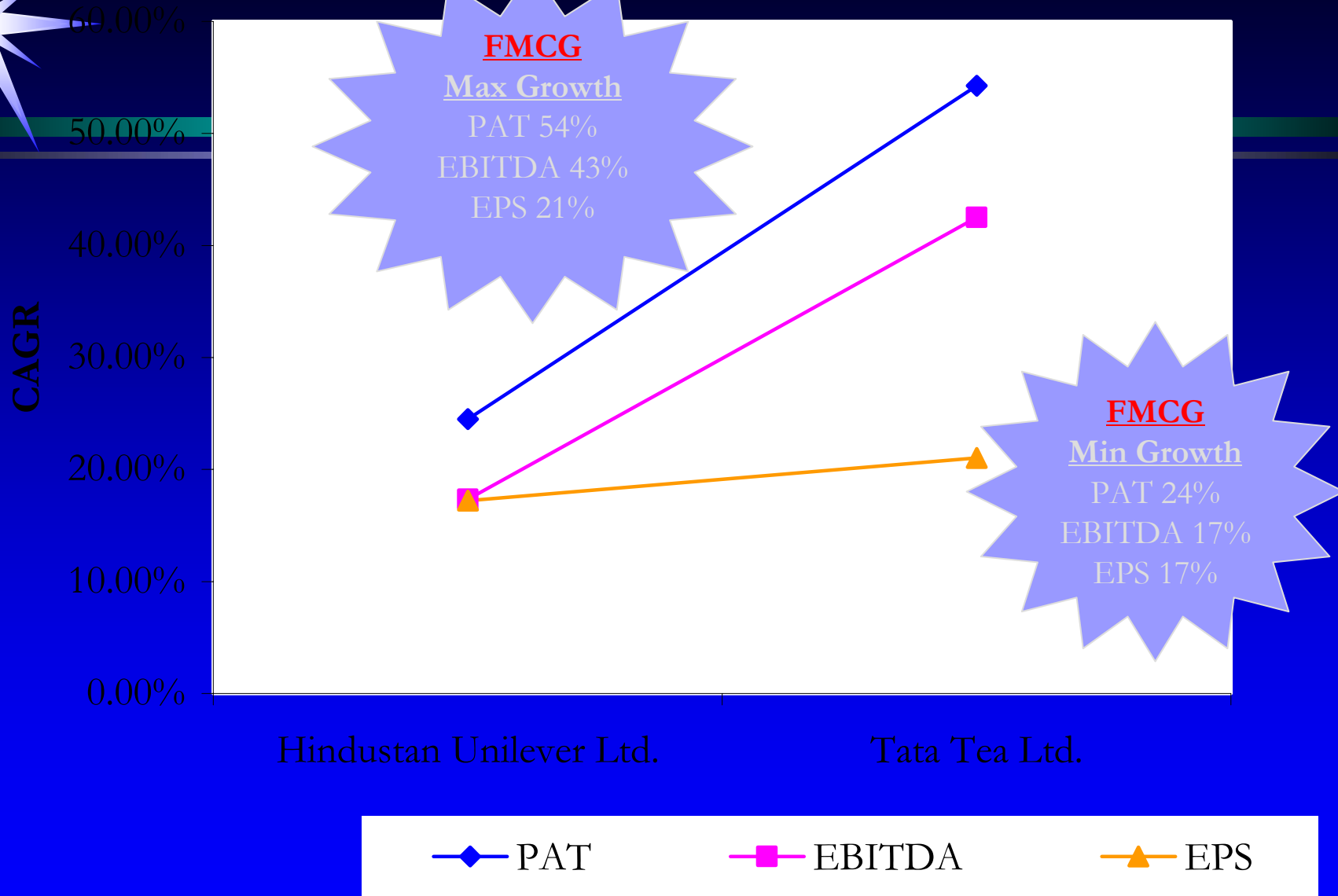


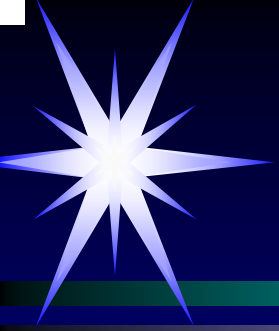
Engineering - CAGR for last 3 years



◆ PAT ■ EBITDA ▲ EPS

FMCG - CAGR for last 3 years

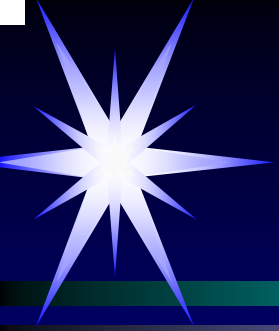




Corporate Governance *a source of Competitive advantage*

Six sources of Competitive Advantage

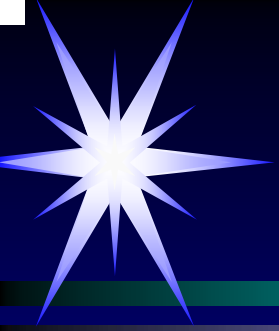
- Board
- People
- Funds through Institutional Investors FII's.
- Customers
- Employees
- Community / Society



Board as a source of competitive Advantage

Board itself is a great source of Competitive Advantage

- ID's bring outsider's perspectives which can be refreshing and different from Whole Time directors.
- Competitive Advantage emanates out of 'Strategy'
- Primary responsibility of Strategy building rests with the Management team.
- Board helps fine tune Competitive Strategy.
- Board asks right questions / Questions assumptions of the Management.



Community / Society as a source of Competitive advantage

Virtuous Cycle

1. Better governed companies are able to become good corporate citizens.
2. Hence Communities & Society at large reward better governed companies.
3. This ensures **LONGIVITY** of the company.



Future Directions in Corporate Governance , few suggestions

- Shift from rule based to Principle based regimen
- More importance & powers to ‘Nomination committee’ to improve selection of IDs
- Take Board renewal more seriously through Director Training.
- More emphasis on CEO Evaluation & Board evaluation.
- Empower investors through education, encourage healthy ‘Shareholder Activism like S.Korea – Hasung Jung –AICG.
Or Institutionalize Activism – like Minority Shareholder Watchdog Group - Malaysia. Or
- Fast Fwd OECD initiative of CG of State owned Enterprises.



Future Directions in Corporate Governance , few suggestions

Different focus in different markets

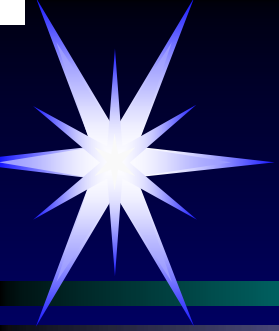
- In developing economies **Focus on** many baseline issues
- In emerging markets **Focus on** challenges of absorbing global “standards”
- In established capital markets **Focus on** structural and systemic issues.



Future Directions in Corporate Governance , few suggestions

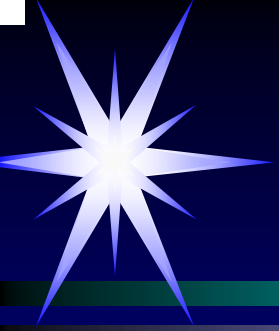
Debate, build international opinion on issues like ;

- Role of hedge funds & their regulation ?
- Scrip lending
- Cross border voting
- Responsibilities of institutional shareholders
- Concentration of audit firms
- Role of investment analysts, impact of their “incentives” on companies
- Do investment bankers really care about CG, isn't it just about the deal !



Asian Centre for Corporate Governance

- Established in 2001
- A non profit Institution
- Mission to promote Global principals of Transparency, Accountability & Equanimity in Asian Companies.
- Global Advisory Board comprise of eminent people from USA, Europe, South Africa & Asia



Global Advisory Board of Asian Centre

- Chairman – Mr Mervyn King, author King’s Committee on CG & Chairman Global Reporting Initiative, UN
- Vice Chairman – M.K.Chouhan, Chairman Mahendra & Young Knowledge Foundation. India
- Donald Jacob – Dean Emeritus, Kellogg B-School, USA
- Roberto De Ocampo – AIM, Manila
- Dr J.J. Irani – Director Tata Sons Ltd, India
- Moses Cheng – Founder Chairman, HKIoD, Hongkong
- Chris Pierce – CEO Global Governance Services, London



Global Advisory Board of Asian Centre

- Nasser Munjee – Chairman DCB Bank, India
- Ram Tarneja – Noted Independent Director
- Minoo Shroff – Noted Business Economist
- Hymayun Dhanrajgir-Former VC& MD Glaxo



Major Achievements of Asian Centre

- 9 International Conferences on CG
- 56 Director Power Breakfast meetings
- 3 Director Training Programmes
- Video Conference with Harvard Business School, Prof. J. Lorsch, on Board Evaluation.
- Endorsed several International events related to Corporate Governance.
- Partnered with GCGF, US. ICGN, UK. SID, HKIoD, MICG, Malaysia. Thai IoD, IICD-Indonesia. AIM, Manila.

THANK YOU

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