

Corporate Governance

Corporate Governance is a term that has come into importance of late. The last few months have been the worst of times and the best of times. They have been the worst of times because corporate corruption has struck at the very citadel of capitalism the USA, leading to the renowned investor Warren Buffet remarking succinctly, "More money, it has been noted, has been stolen with the point of a pen than at the point of a gun." They have been the best of times because the past is going to be a harbinger of sound corporate practices with far reaching implications across the globe and very much so in India.

Corporate Governance is about process of direction of a company, the relation between the Board of Directors and Management. It is also about accountability to shareholders. It is an accepted economic theory that when a sole proprietor manages a concern, profits and value will tend to be maximised because they are directly linked to the owner-manager's self interest (the value of the owner-manager's investment and income). But when such ownership is separated from control, the manager's self interest may lead to the misuse of corporate assets, for example through the pursuit of overly risky or imprudent projects. The stakeholders, whether they be Shareholders, Employees, Financiers or even Governments, need assurances that their investment will be protected from misappropriation and used as intended for the agreed corporate objective. These assurances are at the heart of what effective Corporate Governance is all about.

Corporate Governance concerns the relationships between Corporate Managers, Directors, providers of capital (shareholders), other stakeholders and society. It enables the Corporation to (1) attract capital (2) perform efficiently (3) achieve the corporate objective (4) meet both legal obligations and societal expectations.

Effective Corporate Governance makes it more likely that managers who do not put scarce resources to efficient use, or who are incompetent or, at the extreme, corrupt, are replaced. A McKinsey survey of investors from all over the globe issued in June 2000 indicated that they will pay large premiums for companies with effective Corporate Governance. A recent study of investment patterns shows that half of European Investors and 61% of US Investors have decided not to invest or reduced investment in a company because of poor Governance Practices. (Corporate Governance in the New Economy 2002 survey by Russel Reynolds Associates.)

The Board of Directors is central to the concept of Corporate Governance. The Board is appointed by the Shareholders through voting and the underlying principle is that Shareholders monitor the Board. Performance of the Directors is increasingly subject to legal and self regulation. Moreover, as companies and environment change, ways of governing may need to adapt. Tried and proven structures and processes can help to improve governance and can play an important role in building shareholder confidence in the soundness of achievements and thus the ability to attract capital.

Corporate Governance at WeP

At WeP, we adopted right from inception, the Corporate Governance guidelines by Securities and Exchange Board of India (SEBI) that is stipulated for companies listed in the stock exchange. With over 1,400 shareholders in WeP it is only correct that WeP follows Corporate Governance guidelines like that of a large listed company.

The primary role of WeP's Board is that of trusteeship to protect and enhance shareholder value through strategic supervision of WeP and its subsidiary. As trustees, the Board will ensure that the Company has clear goals relating to Shareholder value and its growth. They set strategic goals and seek accountability for their

fulfillment. They will provide direction and exercise appropriate control to ensure that the Company is managed in a manner that fulfills stakeholder aspirations and societal expectations. The Board will periodically review its own functioning to ensure that it is fulfilling its role.

WeP Board will consist of Executive and Non-Executive Directors, with the former being restricted to 1/3rd of the Board size. The Non-Executive Directors shall comprise eminent professionals, drawn from among persons with experience and demonstrated capability in business, technology, finance, law and public enterprise. Non-Executive Directors are expected to play a critical role in imparting balance to the Board processes by bringing an independent judgment to bear on issues of strategy, performance, resources, standards of the Company conduct, etc.

"Corporate Governance represents the value framework, the ethical framework and the moral framework under which business decisions are taken"

- N Vittal, former CVC