MY SAY: Governance with soul

Professor Tan Sri Dato' Dzulkifli Abd Razak

MY SAY

The Edge - 01/26/2009

Think of Hyderabad and the Charminar — the Four Towers or Mosque of the Four Minarets — comes to mind. It is one of the most important monuments in the city. Collectively with other landmarks, it makes Hyderabad — the capital city of Andhra Pradesh — a very attractive place with its rich history, culture and architecture. It is also a meeting point for North and South India.

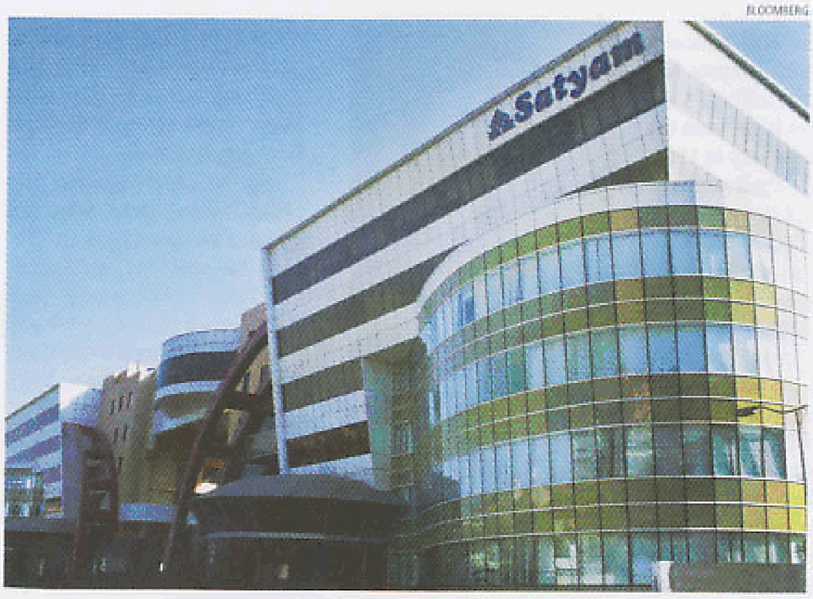
In recent years, Hyderabad has become an information and technology hub. It has also been abuzz with excitement on news that it is to be home to India's Telugu movie industry — the country's second largest after Bollywood — earning it the nickname Tollywood.

Of late however, Hyderabad has been hogging the limelight for an unfortunate reason. It has everything to do with India's fourth largest IT corporation, Satyam Computer Services Ltd, which is currently facing a crisis of "unimaginable proportions", according to its interim chief executive.

It was revealed that the company's profits had been falsely inflated for years. This shocked many as Satyam has long been regarded as one of the new icons of Hyderabad, if not India, the emerging global powerhouse. In fact, seeing how Satyam has transformed itself as India pushes forward into the 21st century has been a source of pride to many Indians.

Structurally, Satyam is fashioned to meet the challenges and demands of today's competitive world. It is distinctively modern, confident and ready to embrace all the corporate values of the day — transparency, responsiveness and accountability — within the context of the much-touted "good governance". It also has the benefit of expert advice from a world-class business school.

India has companies such as Satyam to thank since it opened its economy to the world in the early 1990s. These companies have brought in massive foreign direct investments which have boosted economic growth. In places like Hyderabad, the services industry has become a major contributor even as the IT-related workforce and products grow. Today, besides traditional products such as silverware, sarees, bangles and handcrafted items, there are numerous sophisticated IT software and related services.



Satyam, regarded as one of the new icons of Hyderabad, is now facing a crisis of 'unimaginable proportions' after it was found to have cooked its books

However, the stark reality is different for Satyam. It is now dubbed "India's Enron", on par with the infamous scandal in the US. The ugly incident has cast a long shadow over the Indian corporate landscape, and calls into question the level of corporate governance. When it was revealed that at least US$1 billion (RM3.6 billion) was at stake — with bank balances and revenue overstated, fictitious assets discovered and over 90% of the company's cash involved — the situation exploded. In terms of lay-offs, it is expected to be comparatively far worse than Enron.

The company's shares plunged as much as 80% in the initial stages. This was compounded by the unprecedented economic and financial crisis. In addition, India is still reeling from the impact of the Mumbai terrorist attack. The entire Indian corporate sector has now come under a cloud of suspicion. Satyam concern with respect to corporate governance. The World Bank, for instance, was reported to have "barred" Satyam from its corporate procurement programme for eight years, starting September 2008.

The irony of it all is that Ramalinga Raju, the maestro and chairman of Satyam then, was named the Ernst and Young Entrepreneur of the Year in 2007. Just last year, Satyam was awarded the Golden Peacock Award by World Council on Corporate Governance, while the Indian Council of Institute of Directors (IOD) bestowed a similar award twice — in 2002 and last year. All these beg the question: what is the level of "truth" in the criteria for awards with respect to corporate governance, as highlighted in this column (Issue 737, Jan 12). The IOD has since decided to withdraw Satyam's name from the awards.

It is no wonder that the impact of the fraud is felt far and wide. Perhaps it is true that when the market is booming, many do not take fraudulent practices seriously, including the regulators, stakeholders and auditors. In contrast, everyone is busy heaping praise and doling out awards, creating a bandwagon effect.

According to the World Bank's Worldwide Governance Indicators, there are six key factors in governance, namely voice and accountability, political stability and lack of violence, government effectiveness, regulatory quality, rule of law and control of corruption.

Interestingly, every organisation is measured by similar governance indicators without them being aware that the word "good" is now a commodity defined to fit the purpose of a world that is benchmarked against the mighty dollar. While "governance" is commonly understood as the process of making and implementing decisions, the financial bottom line is what drives the process, which seldom goes beyond the issue of profit and loss.

Humanity and sustainable development, for example, are hardly considered part of the good factors in governance. As long as governance complies with a set of rules, it is deemed to be "good". Thus, companies like tobacco firms may have good governance but in the process, their business may result in unsustainable human health and even deaths. Based on this definition, such companies are celebrated good corporate citizens and this seems to be the accepted trend today.

This amounts to saying that the preservation of human lives is no longer important in good corporate governance. Or to put it in another way, good governance as understood today lacks human "soul". And if it has, it can be bought and sold to meet the financial bottom line. This is particularly evident before the introduction of the current concept of triple bottom line (TBL) as espoused by John Elkington in 1994. This reduced profit to being only one of three factors (the other two being people and planet) that must be taken into account to assess the performance of a company.

To advance the TBL concept further and avoid the ever-increasing fraudulent practices, there is a need to add a new dimension based on intangible values and well-being. As much as the United Nations insists on the importance of ecological well-being in the reporting of ecological standard related to TBL, there must now be reports of the state of "well-being" of humanity as another bottom line, moving forward into this post-profit or post-materialist era.

Apparently, good governance is not good enough until it has a "soul". It is this dimension that will be the ultimate guide on what is good governance. As we move into what US President Barack Obama terms in his presidential address as the "new era of responsibility", there is an urgent need to bring back the "soul" as the fourth bottom line.

Professor Tan Sri Dato' Dzulkifli Abd Razak is Vice-Chancellor of Universiti Sains Malaysia.