



SAMVAD

Featured Article

**Embed Doing the Right In Recruitment
and Selection - Beyond Doing It Right**

GOVERNANCE & BUSINESS



May 2016

About Us



OUR VISION

“To nurture thought leaders and practitioners through inventive education”

CORE VALUES

Breakthrough Thinking and Breakthrough Execution

Result Oriented, Process Driven Work Ethic

We Link and Care

Passion

“The illiterate of this century will not be those who cannot read and write, but those who cannot learn, unlearn, and relearn.” - Alvin Toffler

At WeSchool, we are deeply inspired by these words of this great American writer and futurist. Undoubtedly, being convinced of the need for a radical change in management education, we decided to tread the path that leads to corporate revolution.

Emerging unarticulated needs and realities need a new approach both in terms of thought as well as action. Cross disciplinary learning, discovering, scrutinizing, prototyping, learning to create and destroy-the mind’s eye needs to be nurtured and differently so.

We school has chosen the ‘design thinking’ approach towards management education. All our efforts and manifestations as a result stem from the integration of design thinking into management education. We dream to create an environment conducive to experiential learning.

Message from the Group Director

Dear Readers,

It gives me great pride to introduce Samvad's edition every month. Our Samvad team's efforts seem to be paying off and our readers seem to be hooked onto our magazine. At WeSchool we try to acquire as much knowledge as we can and we try and share it with everyone.



**Prof. Dr. Uday Salunkhe,
Group Director**

As we begin a new journey with 2016, I sincerely hope that Samvad will reach new heights with the unmatched enthusiasm and talent of the entire Samvad Team.

Here at WeSchool, we believe in the concept of AAA: Acquire Apply and Assimilate. The knowledge that you have acquired over the last couple of months will be applied somewhere down the line. When you carry out a process repeatedly it becomes ingrained in you and eventually tends to come out effortlessly. This is when you have really assimilated all the knowledge that you have gathered.

At WeSchool, we aspire to be the best and to be unique, and we expect nothing but the extraordinary from all those who join our college. From the point of view of our magazine, we look forward to having more readers and having more contributions from our new readers.

Samvad is a platform to share and acquire knowledge and develop ourselves into integrative managers. It is our earnest desire to disseminate our knowledge and experience with not only WeSchool students, but also the society at large.

Wishing everyone a very happy and prosperous new year.

Prof. Dr. Uday Salunkhe,
Group Director

From the Editor's Desk

Dear Readers,

Welcome to the May Issue of Samvad for the year 2016!

As we step into 2016, we promise to bring you the best that Samvad has offered till date. The response to Samvad has been overwhelming and the support and appreciation that we have received has truly encouraged and motivated us to work towards bringing out a better magazine every month. With renewed vigour and passion, we bring the May Issue of Samvad which revolves around the theme of "Governance and Business".

With WeSchool having courses pertaining to all spheres of management, it was natural for us to cater to all kinds of readers. And that has made us one of the few magazines in the country which invites articles from all spheres of management giving a complete holistic view.

We work on the platform of "*Igniting Thoughts of Tomorrow*" and we will constantly strive to provide articles which are thought provoking and at the same time adding value to your management education.

We hope you stay with us, read with us, share with us and grow with us!

Hope you have a great time reading Samvad!

Best Wishes,
Team Samvad.

*"For last year's words belong to last year's language
And next year's words await another voice."*

T. S. Eliot.

Acknowledgments

Team Samvad would like to extend their heartfelt thanks to certain key members of the WeSchool family for their special efforts towards the making of this magazine.

We deeply appreciate the constant motivation & encouragement that our beloved **Group Director Prof. Dr. Uday Salunkhe** has always given us. His vision & result orientation has been the driving force in creating brilliant leaders and making WeSchool a name to reckon with, not only in India but also globally. His focus on the core values of Passion, We Link & Care, Result Oriented Process Driven Work Ethic and Breakthrough Thinking has formed the foundation of all the activities that we undertake as students of this esteemed institute.

We deeply appreciate the help and support given to us by **Prof. Deepa Dixit**. Her insight and expertise is our driving force to ensure the sustainability of our magazine.

We appreciate **Prof. Indu Mehta** for help in selecting the best marketing articles.

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We would like to thank **Ms. Yashodhara Katkar**, General Manager - Liaison, WeSchool and her PR team for helping us to reach out to our readers. Also we thank **Ms. Prachi Shah** and her team for helping us with the website updates of Samvad.

We are indebted to **Prof. Jalpa Thakker** for all her help and guidance in the making of Samvad. Her insight and suggestions have been of tremendous benefit to us. The Samvad Team would truly be incomplete without her.



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Mr Ramkumar Krishnaswamy

President, National HRD Network, Mumbai

By: Team Samvad

Q1. Please take us through your professional journey right from the start of your career and your stint at ICICI Ltd. as Group – Chief Officer.

To start with, I did not know what was HR or management as in my time engineers and doctors were the end of the game. The only clarity I had was that I wanted to do engineering, to which I couldn't get admission. The first myth I was to blow in the minds of everybody is that people can be clear about what they want to achieve in life. My interest lied in the young students, so I become the Communist Party of India's Student union leader member. I stood against the societies which are not fair, just or equitable.

You don't have to be a communist to believe in justice and equity. Whatever I wanted to do in my adulthood had to do with contributing towards a more fair and just society. That was when I got to know the Chief Operating Officer of IndusInd bank, Paul who told me about the area called Human Resources. He was not an HR person, but from a finance background. So that was when I got to know about the core leadership programs after I got into the job. It was all about how do you create organizations which were fair, just and equitable. The starting years of my job whether it was at Hindustan aeronautics or at Hindustan Levers, I was a part of the factory as a production head but it really helped me to understand the dynamics of management, i.e. to help people on both the sides of the door- the union side and the management side. It helped me even when I was in the boardroom, when I had the views of the workers, employees and the shareholders.

Early communists thought that all capitalists



were unjust to which I don't agree. You can be equitable and just to both the capitalis

and the people who bring about that ability at the same time. The absolute concept of fairness, equity and justice is what defines my life's mission. My concept is that in an institute where the management does its job well, there is no necessity for a Union. Management has to equally responsible for the shareholders, employees and also its customers. Over a period of time, the union has got polarised as an Anti-Capitalist movement, which earlier was established to ensure equity. Value destruction does not create equitable position for anybody. So in conclusion of my journey of 32 years, I see my nuances or my understanding of peace creation.

Q2. Could you share your views on the theme 'Ethics and Governance in Business'? How have you managed to inculcate this value in your life and at NHRDN?

My approach is that I don't talk much about ethics, because when you talk much about it, you tend to become very moralistic and preachy about ethics. I would like to say that

inherently the forces which drive us in life are such that we can be unethical. I have been unethical. But after I realised that I have been unethical, I have felt ashamed. If we can reach to that level with an individual or organization, I will be happy. I will not profess to anybody an idea of a perfectly ethical institution, because that is not possible. Many a times one man's ethics is another man's vice. Who decides what is ethical and what is not. For one person it is murder, and for another it is a duty to kill. Ethical leadership cannot be defined perfectly. Any act, which on contemplation or reflection makes me feel ashamed, is considered by me to be unethical. I too have copied in examinations in my school and college. I too have lied in my life. I too have done actions which in my capacity as a manager could be termed as unjust. When you take a self-righteous position it is very difficult to lead your life in that position. It is better for us to say that I want a corruption-free society. I understand that as humans we are tilted to be corrupt. The principle of governance is the holding faculty to injustice. It is a balance between too much concentration of power and abuse of power. Hence you need to separate power. It is why the legislative has been separated from the judiciary. You may say that it is not functioning properly, but it is functioning far more better than the totalitarian countries. Therefore, we should not take an absolute position on any of these things. It is not possible for us to have an absolute system of governance anywhere in this world. A flawed ethical system and a flawed governance system is better than a totally unethical system. Therefore I am in constant evaluation how we can uphold the ethical conduct in a large part of our living. We still fail, but the many times we don't fail is why it is worth the effort

Q3. You have a varied set of corporate experiences in public and private sectors. How different these businesses are in terms of 'Governance in Business'? What challenges have you faced while making those organiza-

tions excel in ethical practices

We should not separate the public and private sector. Both the areas have fairly good ethical standards and governance. Ultimately the ethical practices are the function of the leadership which is in place. The same organization at two different points of time may turn out to be at different levels of ethics and governance. The private sector leadership is not paid the kind of attention it should be paid. In my 32 years of working, I have not found corporate leaders who do not want good governance. If you want respect in the marketplace from the employees, core stakeholders, customers, it is not possible for you to be gaining that respect without you striving to be ethical or ensuring good governance. That should be the level of ethical orientation which people bring onto the table. I personally believe that majority of the Indian or the other organizations don't deliberately do anything unethical or don't knowingly violate governance issues. But having said that, it is also possible that an organization fails to act promptly on the incidences which come across as unethical.

Q4. As a seasoned expert, could you suggest ways in which Corporates can be encouraged to inculcate and engage in ethical business conduct?

I think the corporates are as ethical as most industrialists, judicial systems in the world and 99.99% of the citizens who want ethics to be practiced. There are actions of the society which are reviewed by the society from time to time and they would be classified as ethical or unethical. It is a 'Dharmasankat' because one cannot say definitely what is ethical or unethical. A smart interpretation of the tax laws have to be done for the individuals for the same reason. I will tell you that when a corporate knowingly puts out a faulty product into the market, it is unethical. But if a corporate later finds that the

product gone in the market is faulty, you call him negligent and with poor capability. In this world of 24*7 social media, we tend to hyper-ventilate which induces a paranoia in all of us that our society is not just and equitable. Without knowing any facts, we start condemning individuals, institutions, and groups. Much on ethics makes people pretend to be ethical. As the society matures to a multi-stakeholder liberal society, the level of ethics will be more dilute and the same time become stronger. So if you want ethics to strengthen, you should also be prepared for the ethics to be diluted. You should be willing to let go of that ethical standards to create newer standards. In LGBT debate, the society looked at them in a particular way, but later that side of the debate loosened. Now the other side becomes strong because now you say that the discrimination against anybody in this society is unjust. You cannot hold both the sides strong, you need to let go of one side to make the other side stronger. I remember, about 40 years back, when my mother walked into my school to talk to the principal, she was told that the father should come and talk about the issue, to which she stood up to and said, "Why only the father, he is my son too". I would prefer liberal thoughts which have the risk of falling on unethical side than conservative, ill-liberal thoughts which boasts of being ethical all the time. I have brought up my children like that.

Q5. You love to indulge in social work and experience in IR & Labour Laws. How can you integrate your knowledge from both of these avenues in creating a culture of good governance?

To me it is very simple. A socially conscious person is a person who would want corporate governance. When you are governing in a society, you are doing a fine balancing act between the rights and the duties of the people, between the entitlements and the obligations of the people,

ensuring that the majority doesn't cramp up upon the minority, just because it is the minority. The fine balancing act of equitable distribution of wealth, about the rule of law. It is about the non-confrontation of power and authority of one person or a small group of people. Governance is a very high sounding word, even the 40 and 50 year olds don't understand this word clearly. There can be an abuse of power in employee. Governance is not just about financial progress. For example, what is the most appropriate wage rates. 20% of the top management takes about 50% of the total salaries in an organization. Another example is that of the retirement age, it is fixed for all employees at 60-65 years, but for CEOs to continue till 70-75 years is just bad governance. When you are giving an extension to the powerful leader, you are actually meaning that the leader has failed to create good quality successors. It should be same for all the people for performing at a similar level.

Q6. Please share some advice for the youth who will face such situations in corporates and how can they tackle it?

Things for which you don't like to lie, don't lie. Things for which you don't have to take another person's credit, don't do it. If you are a young person, do understand how to treat another person with dignity and respect. For example, if you are in a bank, do not sell insurance to the wrong person. If you are in a FMCG company, do not misinterpret the credit terms to your dealers just so as to meet your target. You should meet your targets without causing difficulty for your organization in the later stages. Inculcate a habit of differentiating between other people's rights and what is unjust, inequitable and unfair.

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Operations

TESLA, under the lens

By: Jaikishan Kankani , MMS (2016-18), We School, Mumbai

There was a time when great automobiles meant Rolls Royce for their grandeur, Ferrari for their speed, and Audi for their sheer driving pleasure. Not anymore. Enter Tesla. It's the wonder that a techie or a car enthusiast would keep googling from time to time, wishing some way or the other to be associated with Tesla. But above all, owning a Tesla Model X or Model S car will be mind-blowing. I am sure many people must be thinking about owning one, and why not? It's a Tesla car after all.

When Tesla Motors began its journey, not many could comprehend even the name. They had no clue other than that Elon Musk is the face of this automobile company. Gradually, people started knowing about it and today, it means 'Electric Energy and Speed combined in a stunning body of a car from the future' or at least what the future holds. Tesla motors has changed the way everyone looks at automobile industry. It has achieved what many companies wanted. That is to find an alternative to source of power to drive a car. Sure, electric cars have been around since mid-1800s, but they were not sustainable.

Tesla Motors is known for specializing in electric cars and their powertrain components. It started gaining widespread attention after producing and selling Tesla Roadster, the first ever electric sports car in 2008. Then, it introduced a luxury sedan electric car, Model S in 2012. This is when Tesla motors started diversifying its business model. It has sold around 164,000 electric cars

since delivery of its first Tesla Roadster. Global sales of Model S alone surpassed 100,000 in December 2015. The third in line was Model X, a crossover SUV. The latest is Model 3 which was announced in March 2016 with a slated release date in 2017. Now, Tesla has a car for all major segments - Roadster for the Sports segment, Model S for the Premium Luxury Sedan, Model X for the SUV market and Model 3 serving the mass market.

Elon Musk, the co-founder and the face of Tesla, is a believer in Vertical Integration Strategy of business. Vertical Integration is an arrangement strategy in which an organization owns its upstream suppliers and downstream buyers. In brief, it typically means one firm is engaged in different parts of production itself. Elon Musk believes that Tesla Motors must have its own sustainable electricity production and that too of clean energy, if possible. For this, Tesla Motors is building Gigafactory in collaboration with Panasonic. It is power generation factory, the largest in the world, the inauguration of which was held on 29th June, 2016. This factory is expected to reduce the production cost of the electric vehicle battery, and Powerwall and Powerpack packs substantially by 30%.

To work on clean sustainable energy supply, Tesla Motors is merging with solar energy company SolarCity to pitch their combined values 'synergies'. According to Elon Musk, both companies have a tremendous opportunity to create

a vertically integrated sustainable energy company. This will offer end-to-end clean energy products.

The vision of Vertically Integrated Sustainable Energy company of Tesla Motors, though seems like a fancy picture, it is a strategy which companies run away from. Because if not implemented properly which in itself is a task, the correction costs can be quite huge as well as highly difficult. In February 2016, Goldman Sachs analyst issued a statement that 'Tesla is now 80% vertically integrated' after visiting its factory in Fremont. And the latest merger of Tesla and SolarCity is said to be a Corporate Governance at its worst by Jim Chanos, a high-profile investment manager. Before the merger, SolarCity bonds were yielding 20%, which is an example of a company heading to financial distress. It was burning millions of cash every quarter. According to Chanos, this is a burden which Tesla will now have to bear, at a total cost of \$8 billion. After the deal, the combined market drop in value of both companies was more than the value of deal itself.

In light of the deal between Tesla and SolarCity and its effects, an investor group in Tesla called on to add two more independent directors to the board and separate the roles of chairman and chief executive for better governance and functioning of the company. Because Elon Musk has dominance in the board as he is the largest shareholder in both the companies and is both the chairman and CEO leading to a larger say in the corporate governance and processes of Tesla Motors.

At this point of time, Tesla faces a huge problem of What it will be in future? It has faced a variety of problems in the past ranging from design and some production glitches to production of the whole components. In production of

Model X car, once the company got so frustrated with the supplier of seats, that Tesla itself had to make them. Also, Tesla facing 5 major challenges for the future – Who is going to make the cars? Can enough Skilled Labor be found; Growth of its selling and service network; Can stock price survive need for more capital; and the very core of Tesla business is cars or Gigafactory. Apart from these, the company is facing financial crunch due to continuous burning cash for its operations. Also, there are governance issues about the dominance in decision making of company, arising from Tesla-SolarCity deal.

Tesla Motors, till now has shown us what tomorrow can hold with its electric cars, its new 'Auto Pilot' technology implementation, Gigafactory powerhouse and the promise of a clean sustainable energy for the future. It has been wonderfully exciting to see a company start so late (in 2008) and disrupt the whole automobile industry as we knew it. But it is facing many issues which makes us question, What will the tomorrow hold for Tesla?

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Finance

ARE CENTRAL BANKS CREATING THE NEXT CRISIS?

By: Rohit Mishra, PGDM-Global business operations (2015-17), Shri Ram College of Commerce

Somebody has rightly said that, "The seeds of the next financial meltdown are sowed at the end of the previous one. "While the world economy is still recovering after the 2008 crisis, the central bank is pushing reforms that haven't delivered results so far, and are rather backfiring in some cases.

The Federal Reserve has pumped money into the system in three phases in 2008, 2011 and 2013 and had a status quo till December 2015; when it first raised interest rates after almost a decade; with unemployment level just under 5%, growth rates around 2% and inflation less than 1%. The Federal Reserve is incapable to stimulate the overall economy rather has created a predicament of stagflation. The 2008 crisis occurred due to the flexibility of Federal Reserve and SEC in favour of the Financial Services Industry due to its influence over the Monetary Policy formation (Henry Paulson, Alan Greenspan and Ben Bernanke).

Mario Draghi, has kept the interest rates in negative territory and deposit rates to zero and has not reduced its QE i.e. EUR 60 bn.-a-month bond buying programme for another six months until March 2017 or beyond for revitalising the eurozone economy and countering deflation but these tools are backfiring as they have not gained in growth and inflation is nearly zero. Brexit and the Greek crisis have created hurdles for growth in the Eurozone. With discrepancies among

monetary and fiscal policies, economic growth might be a distant dream.

Japan's nominal GDP was approximately the same in 2015 as it was 20 years earlier. The three tools- monetary stimulus, financial "flexibility" and structural change have acted as factors for economic's decline. Negative interest rates boost consumption and infuse liquidity through Qualitative Easing, yet its 2% inflation target has not seen the light of day. The people of Japan have preferred to delay or postpone consumption through savings, which has led to serious shortage of liquidity in the economy. The growth story of the 20th century is now a perfect example of how unconventional monetary policy has backfired, also known as **ABENOMICS. HELICOPTER MONEY** coined by noble laureate **Milton Friedman** is being implemented by the BOJ as it is squandering money to boost growth.

Central Banks in developed nations are adopting various unconventional monetary tools for growth, however, they are neglecting is the repercussions it has on the developing nations. The Former RBI Governor Dr. Raghuram Rajan along with Prachi Mishra of RBI has written a paper titled **Rules of the Monetary Game** discussing that the developed nations should consider the repercussions of their monetary policies on the rest of the world, particularly the growing countries.

Hence summing up the content, we can say that, with central banks doing whatever they can to boost growth, they have not been able to deliver results, rather it has backfired as the central banks

have deployed almost every monetary policy tool at their disposal. Any trigger of the same magnitude as witnessed during the LEHMAN BROTHERS can invite another financial crisis.

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Marketing

Governance and Business

By: Mansoor Vohra, MMS (2016-18), We School, Mumbai

Governance in business, according to the Financial Times, is “How a company is managed, in terms of the institutional systems and protocols meant to ensure sound ethics. And accountability. The concept encompasses a variety of issues, including disclosure of information to shareholders and board members, remuneration of senior executives, potential conflicts of interest among supervisory structures, directors, and managers etc.”

For any company to succeed, good governance is the key. But it becomes more important in public limited companies. This is because the people who run the company, i.e. the management, are not the people who own the company, i.e. the stakeholders. This creates an incentive problem as more often than not, the management does not have a stake in the company’s success. A system is hence created to ensure that the management does not take decisions which benefit themselves, while harming the company. This system would include a board of directors and an auditing committee.

The board of directors would have the responsibility to look after the management and ensure that the management works for the betterment of the company and does not consist of managers who work only for their own self interest. The board would have the power to hire and fire members of the management. The auditing committee is required to make sure that the financial statements of the company are accurate.

In the Coordinated or Multi-stakeholder Model, other constituents also play a role. They include creditors, customers and workers.

One of the most famous example of bad governance is Enron. The valuation of Enron’s shares were increased as the executives lied about the financial positioning of the company. The board, the auditor and even the ratings agencies did not detect this for many years until the company ultimately collapsed into bankruptcy. This dubious behavior of Enron would have been detected and corrected years earlier if Enron had taken the necessary steps to place a more effective Governance system.

In India, SEBI (Securities and Exchange Board of India) has set up the system of governance in business. SEBI defines corporate governance as the “acceptance by management of the inalienable rights of shareholders as the true owners of the corporation and of their own role as trustees on behalf of the shareholders. It is about making a distinction between personal and corporate funds in the management of a company and about commitment to values and about ethical business conduct”.

Nevertheless, high profile scandals like the stock market scam, the UTI scam, Ketan Parikh scam and Satyam scam called for a need to make corporate governance in India transparent as the stakeholders were deeply affected along with

development of the entire nation. The Indian Companies Act of 2013 introduced some processes which were transparent and progressive, hence benefiting stakeholders, directors as well as the management of companies. Investment advisory services provide concise information to the shareholders about these newly introduced processes and regulations. The aim of these Investment advisory services is to improve the corporate governance in India. One important amendment is that now, the minority stakeholders have got a bigger say in the affairs of the company.

The share prices are affected positively when the shareholders have high confidence in their company. This confidence is a result of an impeccable Corporate Governance system. This system is also one of the most important criteria for any foreign institutional investors, looking to invest in a company, especially in India.

The Indian Companies Act of 2013 introduced rules and regulations which focused on increasing the power of the shareholders in decision making and making them more directly involved, along with increasing the transparency which helps in safeguarding the interest of shareholders and society. The international practices were also kept in mind when The Indian Companies Act of 2013 was introduced with innovative measures to increase the growth of the enterprises and to secure foreign investments.

According to the GMI (Government monitoring information) rating on corporate governance, India is rated 4.54 out of 10, with a rank of 20. Therefore, we can state without a doubt, that the key to improve India's economy by securing

foreign investments lies in the government bodies stepping in and implementing its regulations to improve the corporate governance in companies.

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Human Resources

EMBED DOING THE RIGHT IN RECRUITMENT AND SELECTION-BEYOND DOING IT RIGHT

By: Avani Thakkar & Neha Bhat, PGDM(2015-17), We School, Mumbai

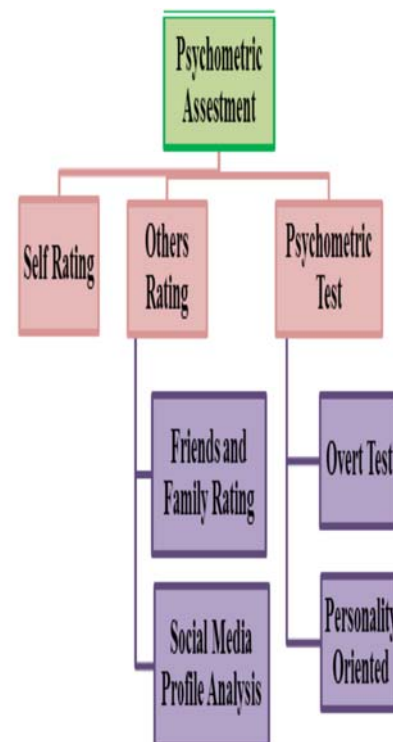
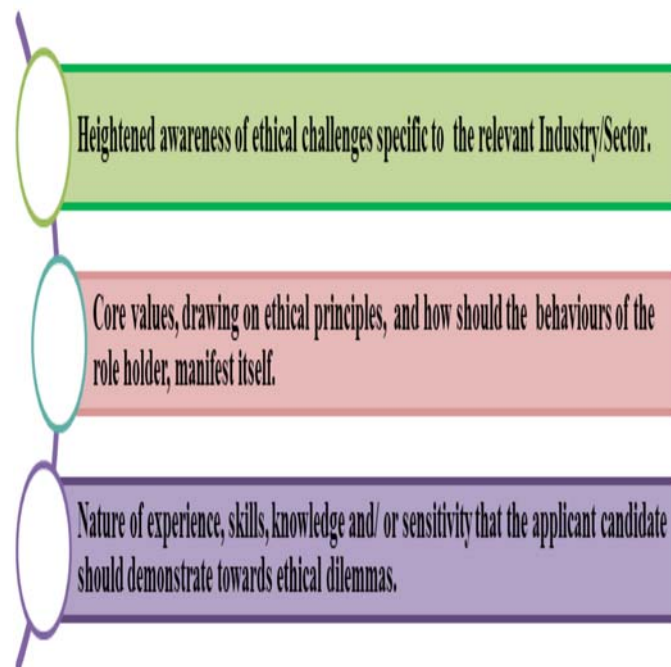
The Institute for Global Ethics defines ethics 'as the obedience to the unenforceable'. The principles of Moral-Science have a significant impact on ethics, which finds expression in the employee's behaviour, which ultimately shapes Organisation Culture.

Organisational Culture emphasizing on ethical behaviour is vital for sustainable growth of any organization in today's tumultuous business world. A logical first step for organizations to establish an ethical culture is to have right people searched for, selected and placed in the right roles at the right time, with the tone being set by the Senior-Management.

Ethical due-diligence in the Recruitment & Selection Process includes the assessment of the

candidates 'fit' with the espoused ethical cultural traits, behaviours and values of the organization. This will ensure that the selected employees are well aligned with the 'valued behaviours'. Resultantly, their conduct and decisions made are less likely to undermine the organization's reputation.

The Recruitment Process includes Role/Job analysis, Position specifications and Competency requirements. It encompasses sourcing, screening, on-boarding and integrating the new hire with the value chain of the organisation. Ethical due-diligence hence needs to be integrated with all touch points.



An indicative process-flow to facilitate the execution of ethical due-diligence:

1. Identifying 'essential/desirable' 'preferred value based

behaviours' (incorporating the ethical dimension) / 'action standards' that the organisation expects from new hire(s) in a role/position:

2. Screening: William Byham's research highlights that 60% of CVs contain 'meaningful Errors', i.e. embellishment of education/experience/employment histories. Such fallacies can be eliminated during screening

Psychometric Assessment: Validated and Reliable Psychometric Tests should appropriately be used to generate applicant profiles. These would signal, stemming from personality, his/her

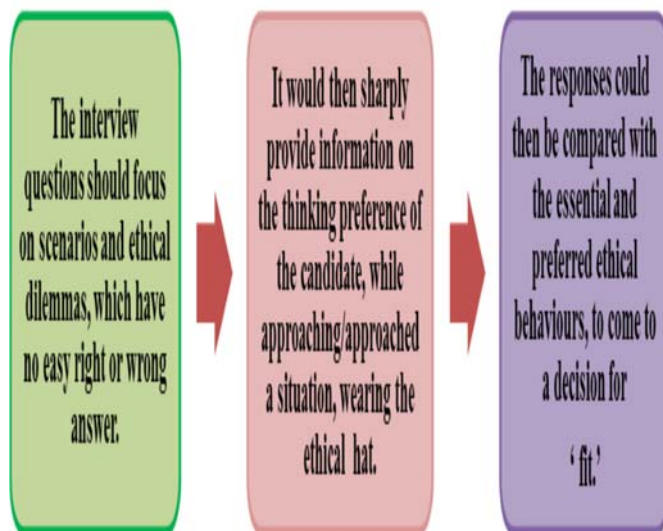
personal ethical orientation, based on naturally

ly acceptable responses). Whereas, Dynamic Simulation techniques (e.g. Gamification) could generate reliable cues, to comprehend insightfully about applicant's preferred behaviours and actions.

Deloitte, Volkswagen, Marriott and PwC are, amongst others, who are deploying Gamification, to better understand attitudes and behavioural preferences of applicants to generate a superior understanding of the candidates' value system and check degree of cultural alignment with the organisation.

3. Interviews: Provide maximum time and opportunity to assess ethical fit. The BEI based approach, using STAR technique is preferred.

In conclusion, 'Ours is a world of nuclear giants and ethical infants. We know more about war than we know about peace, more about killing than we know about living.'- Omar Bradley



preferred behaviour based responses. These inputs can be effectively explored during the interview stage. (see graphic below)

There could be risk of over-reliance on these assessments (as candidates try to provide social-

General Management

Governance in Business: Work for Shareholders

By: Mounika, PGDM (2015-17), Great Lakes Institute of Management, Chennai

"The way a business is structured influences its decisions at every level, determining how it selects leaders, sets goals and assesses performance – all of which affect sustainability" (Osgood et al., 2013)

Business is an organization entity that provides goods or services to the customers. Customers will provide money in exchange of goods or services. The capital to run the business is invested by the individuals or group of individuals. Based on that type of business will be decided. It can be of the sole proprietorship, partnership, corporation, cooperative. The main motto of any type of the business is to make money in the best interest of their investors or shareholders. To achieve this business needs governance.

Governance is referred to as doing right things in right ways to achieve the desired outcome of any organization. So not only public listed companies require governance but also any kind of organization who has the desired goal. Governance can be linked to the strategy of the business to give the best result to the shareholders.

Governance of the organization ensures the following decorum:

- The efficient and effective way of handling their business processes.
- Risk can be monitored and managed well.
- Minimizes the risk occurrence.
- Effective decision-making at boardroom level in the interest of shareholders.

Governance can protect the organization in making the poor decisions, change in leadership

styles, financial crisis etc. But to achieve this proper execution of governance framework is needed.

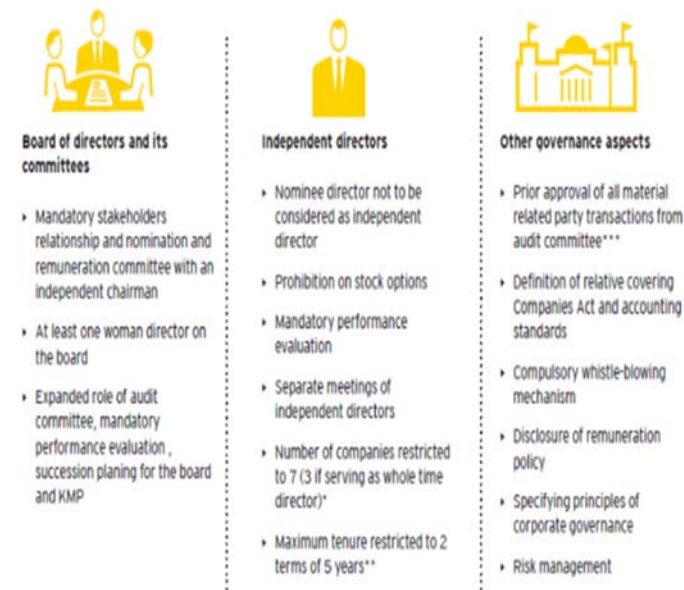
As the type of business vary, the structure of the governance will vary. Based on the type of business, we can broadly categorize governance structure into five types.

1. **Oligarchy:** Typically control of the organization is in the hands of small group of Individuals, appoint the members in the form of the board. The will take care of appointments of the board and the decisions. Many charities and social welfares follow this governance structure.
2. **Representative:** Members can be formed from the different organization. Each member will appoint one member to make the board. Members may be local authorities, charities etc. Usually, this structure can be executed when two or more companies are joined together for common purpose.
3. **Membership:** In this structure members or the organizations have the relation with an organization. It is used by the national organizations to make a democratic structure.
4. **Co-operative:** Autonomous association of persons united voluntarily to meet the common goal. The main motto behind this structure is "One member One Vote".
5. **Appointed Board:** Members of the board may or may not be the members of the organization. Board members can be appointed based on the skill and knowledge criteria.

Organization can follow the hybrid structure of their governance. Usually, management follows two – tier structure of governance.

Agency theory of cash flows can be taken care by the governance. When any corporation or governance is making a good amount of cash flows, managers who are working for the shareholders has to use the cash for shareholder's benefit but not their own interest. Governance will ensure that managers can utilize the cash to generate more revenue to give more profits to shareholders. Ultimately board of directors has to take a decision based on the suggestions that are given by the managers.

Governance failure can result in the collapse of the organization. In India, SEBI has the responsibility to provide the norms related to the governance in any kind of business. Following are the new rules by SEBI from 2014. Fig. Norms of SEBI related to governance



For any business, either individual or group of people (Board/ Trustee etc.) are responsible for whole business and are answerable for the group of individuals, those are shareholders.

The responsibilities of the board will be well defined through the governance. It will include vision, Planning and evaluation, Finances, Hu-

man Resources, Organizational Operations, and Community Relations.

Principles of Governance and Business:

- **Rights of shareholders:** Organizations should respect the shareholder's rights. They have the responsibility to effectively communicating the information and make them understandable accessible.
- **The interest of other stakeholders:** Organization should be legal and answerable to the employees, government and communities etc.
- **Role and responsibility of the board:** The board has the range of skills and knowledge, and are responsible for solving the business issues and making proper utilization of the organization resources to provide proper returns to their shareholders.
- **Integrity and Ethical Behavior:** Ethical behavior and responsible decision-making are necessary for handling risk management. It is important to understand that failure in integrity and ethical behavior will lead to the failure of the organization in long run.
- **Disclosure and Transparency:** Board of the organization's roles and responsibilities should be clear and well understood by everyone in the organization. Disclosure of timely information will make the investors take their decisions with the factual information. How does the governance will help organizations to become profitable, efficient? The following are some of which can be taken care of governance with the policies associated with it.
- **Enhances the decision making with the transparency.** In the case of family business, knowledgeable personnel can be added to the board.
- **Appointment of knowledgeable board of directors** can be monitored and evaluated the performance. Finally, the efficient way of handling will give good result to the business in terms of the growth and profitability.

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*“It’s fine to celebrate success, but it
is more important to heed the les-
sons of failure”*

—Bill Gates