

The new facets of corporate governance - sustainability, technology and ethical leadership

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Traditionally, corporate governance was viewed as a system by which companies are directed and controlled. While aspects such as board composition, independence, shareholder rights, and related-party transactions continue to garner attention, there are certain emerging facets to corporate governance that merit attention. What earlier used to be enforced compliance is now evolving into an empowered operating mechanism.

In a company the governance framework consists of multiple layers that dictate how one operates, conducts, regulates, monitors, and adds value to each of the stakeholders - from employees, vendors, customers, society, environment, and shareholders. In recent times sustainability, technology and ethical leadership are gaining significance in boardrooms as well as the policy corridors.

The key variables that have driven this are as follows:

Sustainability

Many corporates with exposure to global markets are evaluated on their environmental and social practices. Better performance on parameters such as emissions, waste management, human capital management, etc. lead to higher confidence amongst stakeholders on the

longevity and resilience of the business. Some examples of how sustainability is being woven into the business model -

Automobiles: Shift from ICE to EV, Environment norms (from negligible to BS6) has forced the players to review their product offering, technology, and supply chain. Technology partnerships, product innovation and customer centricity are taking centerstage.

Chemicals: Multi-industry usage, handling hazardous materials, safety, pollution control and avoiding toxic materials are key. Some of the elements which matter include -

Green Chemistry: Focus on reducing harm to human health and the environment via use of less toxic products and clean processes.

Bio-Based and Renewable Feedstocks: Derived from renewable sources with low carbon footprint enabling lower reliance on fossil fuels.

Circular Solutions: Recycling and reusing chemicals, implementing zero liquid discharge systems to reduce waste & prevent contamination of river / groundwater.

Technology

A vital enabler - Tech is now an omnipotent force in business design. An integrated end-to-end digital strategy empowers an organization to be agile, responsive, resilient, and adaptive to engage its ecosystem positively.

Some examples are:

Communication and reporting (advance tech support): Real-time financial and operational reporting and decision support, analysis, monitoring and compliance with greater accuracy.

Data Analytics and risk management: Raise timely flags; predict potential risks and opportunities; predictive analytics enables proactive decisions, reducing the effects of sudden challenges.

Cybersecurity and data protection: Compliance with evolving data protection regulations & manage data privacy requirements, reducing legal and reputational risk

Shareholder engagement and voting(online /virtual): Enhancing efficiency and transparency, records, reporting of decisions.

Internal controls, reporting and compliance (embedded surveillance, empowered whistleblower mechanism & surprise system audits): Timely reporting of unethical or illegal activities. Higher transparency and accountability; reduced fraud/ reporting irregularities.

Nonetheless, technology adoption is a double-edged sword. While governments and businesses are increasingly resorting to technology to promote efficiency and weed out malpractices, its unrestricted use poses many ethical and moral dilemmas. Lack of accountability without proper vigil, could lead to obfuscation and manipulation.

Ethical Leadership

The cornerstone of governance: Ethics encompass character and culture. Character is doing the right thing when there is no vigil. Every organization's DNA pivots around its leadership. Ethical leadership is built on the pillars of independence, rationality, fairness, trust, equality, transparency, flexibility, candor, and intellectual humility. In the past, India Inc has witnessed corporate misconduct spanning various industries such as airlines, financial services, real estate, software services and fast-moving consumer goods - causing permanent, at times irreparable reputational damage and legal repercussions. Proactive engagement and alignment of greater accountability and ownership ensures fair conduct - which gets rewarded over a period of time on consistent commitment from managements to operate with integrity, fairness, and genuine stakeholder commitment.

From cosmetic lip service to an engrained and at times enforced DNA, governance has come a long way. In a nutshell, ethical leadership acts as a foundation on which other good governance practices thrive and will offer greater protection than the myriad laws that get introduced. Investors are willing to embed higher valuation premia for such companies reflecting in a better perception-to-earnings ratio.

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