

**IMPROVING  
ACCOUNTABILITY AND  
RESPONSIBILITY OF  
CORPORATES AND  
GOVERNMENT**

By

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# SEEMS LIKE YESTERDAY!

- ◎ "I see in the near future a crisis approaching that unnerves me and causes me to tremble for the safety of my country. . . . Corporations have been enthroned, an era of corruption in high places will follow, and the money-power of the country will endeavor to prolong its reign by working upon the prejudices of the people until the wealth is aggregated in a few hands and the Republic is destroyed."
  - Who said this? When?

# WHO SAID THAT?

- ◎ Abraham Lincoln

- ◎ in

- ◎ 1864!

- So things have not been hunky dory for many decades!

# SOME RULES OF ACCOUNTABILITY AND RESPONSIBILITY

- Lets call this A&R rules- they apply universally!
  - 'I have all the rights; others have A&R'
  - 'Whether someone is accountable depends on mainly who is the person'
  - 'All decisions end in stalemate-when they approach A&R'
    - Belling the cat problem!
  - 'It's easy to make decisions but not execute'
  - 'The other queue always looks shorter; other guy is always wrong'
  - 'Mother of all rules- find someone to blame'
  - 'If more than one person is responsible for a miscalculation, no one will ever be at fault'\*- law of collective unaccountability
  - 'Men and nations will act responsibly when all other possibilities have been exhausted'\*
    - Murphy's law

# STORY OF 4 PEOPLE!

- ◉ *This is a story of four people: Everybody, Somebody, Anybody, and Nobody.*
- ◉ *There was an important job to be done, and Everybody was asked to do it.*
- ◉ *Everybody was sure that Somebody would do it.*
- ◉ *Anybody could have done it, but Nobody did it.*
- ◉ *Somebody got angry about that, because it was Everybody's job.*
- ◉ *Everybody thought Anybody could do it, but Nobody realized that Everybody wouldn't do it.*
- ◉ *It turned out that Everybody blamed Somebody when Nobody did what Anybody could have done.*
  - *Author Unknown*

# COW STORY- MULLAH NASRUDIN- PART 1

- ◉ A neighbor ran into Judge Nasrudin's room and asked, "If one man's cow kills another's, is the owner of the first cow responsible?"
- ◉ "It depends," Nasrudin cautiously answered.
- ◉ "Well," said the man, "your cow has killed mine!"
- ◉ "Oh," answered Nasrudin. "Well, everyone knows that a cow can't think like a human. So obviously, a cow isn't responsible-and therefore, its owner isn't responsible either."

# COW STORY -PART 2

- ◎ “Excuse me, Judge,” the man interrupted, “I made a mistake. What I meant to say is that my cow has killed yours!”
- ◎ Judge Nasrudin sat in contemplation for a few moments. “Now that I think about it more carefully,” he announced, “this case is much more complex than I initially thought.”
  - Mulla then asks for the Rule book to be brought!

# CAN THE GOVERNMENT LEGISLATE A&R?

First does the Government know to govern itself?

Then:

- ◉ Can it legislate governance?
- ◉ Ex: Independent director
  - Independence is a state of mind
    - A relative can be really independent and total stranger who has no back bone will be totally not independent
  - Was Vibheeshna independent or dependent vis a vis Ravana?



# GOVERNMENT DOES TRY

- ◎ Take the new Company law bill about to become act
- ◎ Directors-provisions:
  - Independent directors
  - Duties of directors
  - Related party transactions
  - Insider trading
  - Class action suits
  - CSR
  - Fraud
  - Severe punishments, penalties ...

# GOVERNMENT DOES TRY-CONTD.

- ◎ New Company law bill
- ◎ Auditors -provisions:
  - Independence requirements, disqualifications, other services
  - Mandatory audit standards
  - NFRA as regulator
  - Rotation of auditors, partners etc
  - Reopening of accounts
  - Class action suits
  - Heavy penalties and punishments ...

# CAN COMPANIES GOVERN?

- ◎ Board, audit committee etc etc
  - A camel is a horse designed by a committee!
- ◎ **The Abilene Paradox** explains why groups often come up with a solution no-one expressly wants or cares about
  - Unseen pressure to conform, curtails creativity, dissent and singular thought!

# SO WHAT DO WE DO?

- ◉ If Governments and Corporates do not know how to govern, what do we do?

# WE KNEW A&R BEFORE EVEN THE WORDS WERE BORN

- ◉ Accountability originated more than 3,500 years ago here in India.
- ◉ Ramayana and Mahabharata have talked about it
- ◉ The age old adage in Ramayana is 'Yatha Raja Thatha Praja'
  - 'As is the king, so his subjects'
- ◉ The King had to show the way, practice what he preached, lead by example
- ◉ The *Mahabharata* even approved a protest against a King who failed to perform his duty to protect his subjects.
- ◉ The *Arthashastra*, laid down all the rules for effective governance

# ***THIS IS A&R!***

- ◉ One late evening a person came to Kautilya and said he wanted to discuss a personal problem. Kautilya immediately put out the candle that was then burning and went inside to fetch another candle.
- ◉ When the guest asked him why, he said that the previous candle was bought with state funds but as the guest wanted to discuss a personal problem, he brought the candle bought with his own funds.

◦ *Article -SIRC Newsletter Apr 04*

# A STORY OF THE MAHATMA

- ◉ At Mahatma's request, Acharya Vinobha Bhave started to teach Mahatma the Bhagvad Gita
- ◉ After the first class, Mahatma did not come for the second one
- ◉ The worried Acharya asked the Mahatma-why?
- ◉ He said, "I am still trying to apply in practice what I learnt in 1 class; when I am through with that, I shall come for the second."

# ALL WHAT WE NEED IS HERE!

- ◉ We do not need to ape the west
- ◉ What we need to ensure A&R is all here
- ◉ Actually the world learns from India and the Mahatma
  - Obama quotes Mahatma more than our politicians



# WHAT ALL OF US SHOULD UNDERSTAND

- ◎ “Notice that "I" is at the center of the word "ethical." There is no "they."  
Achieving the ethics of excellence is our individual assignment.”
  - Price Pritchett, Ph.D.

# WHAT BUSINESSMEN SHOULD UNDERSTAND

- ◎ The concept of
  - Trusteeship
  - End does not justify means
- ◎ They are not owners , they are trustees of their business and they need to always keep the needs of the society at large, in their mind in all decisions
  - Mahatma Gandhi

# TRUSTEESHIP

◎ "Supposing I have come by a fair amount of wealth - either by way of legacy, or by means of trade and industry - I must know that all that wealth does not belong to me; what belongs to me is the right to an honourable livelihood, no better than that enjoyed by millions of others. The rest of my wealth belongs to the community and must be used for the welfare of the community."

■ MAHATMA GANDHI

# NEED AND GREED

- ◉ There is enough for everyone's needs but there is not enough for every one's greed
  - Mahatma Gandhi

# GOOD CORPORATE GOVERNANCE MAKES BUSINESS SENSE TOO- WE SHOULD TELL THE BUSINESSMEN

- ◉ Companies with better corporate governance have higher price-to-book ratios, indicating that investors will pay a premium for shares in a well-governed company.
- ◉ Moreover, the reward for good corporate governance is large.
  - By moving from worst to best in corporate governance, companies in our sample could expect, on average, to experience roughly a 10 to 12 percent increase in their market valuation—a result underscoring the importance investors attach to these attributes.
  - ◉ A Premium for good governance by ROBERTO NEWELL AND GREGORY WILSON - McKinsey quarterly

# WHAT WE NEED IS BUT ONE RULE

- ◎ Be the change you want to see in others
  - Mahatma Gandhi
- ◎ This is the essence of all A&R
- ◎ With this we can achieve A&R
- ◎ Without this , no matter what we do, we will have no A&R

# **THE A&R INTERNAL AUDITOR**

# TRAITS OF AN A&R INTERNAL AUDITOR

- ◉ Skill in accounting and auditing /thorough in standards of IA
- ◉ Alertness and native shrewdness
- ◉ An understanding of the business- looking through the eyes of an active owner
- ◉ Curiosity, inquisitiveness and innate skepticism
- ◉ Self confidence and tact
- ◉ Firm grasp on materiality
- ◉ Mathematical aptitude - figures should talk to him! And
- ◉ Integrity of the highest kind
  - What does it take to be an auditor? JOA -Jan 88



# TRAITS OF AN A&R INTERNAL AUDITOR- RECENT STUDY

- ◎ 1. Integrity
  - ◎ 2. Relationship building
  - ◎ 3. Partnering
  - ◎ 4. Communications
  - ◎ 5. Team work
  - ◎ 6. Diversity
  - ◎ 7. Continuous learning
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- Recent IIA/ Robert Half study "7 attributes of highly effective Internal auditors'

# FINAL WORD-A VIDEO

- ⦿ In this video you will see what happens to a broken chair in an office
- ⦿ A lesson in A&R!
- ⦿ <http://www.youtube.com/watch?v=ZkK4ehm0x3w>