



HR and GOVERNANCE

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The collapse of Enron, WorldCom, Global Crossings, and Tyco in USA; Ahold, Vivendi, and Mayflower in Europe; Harris Scarfe, HIH Insurance, and OneTel, in Australia, are all now part of history. Histories that may be forgotten, but are pregnant with issues which have to be addressed to ensure that such incidences do not occur in the future. Be it Enron or WorldCom, or any other of these organizations; they were not only profitable entities of yesteryears, which made shareholders rich and stake holders happy, but were also often epitomized (before their collapse, that is) for innovative business methods and trend setting practices. The question that has haunted the public in general is that, how



come such companies came down like a house of cards, after building operations and profits of seemingly impenetrable scale and magnitude. Can organizations take steps to ensure that such catastrophes do not occur? And what would be the role

that HR would play in drawing-up such “failure prevention” strategies?

Deeply interwoven with the process of corporate failure, is the process of corporate governance. In fact, a study pointed out that organizations which had strong Governance processes in place not only hedged themselves against such (collapse kind) catastrophes, but also enjoyed better valuations (market capitalization). So the question of corporate failure and HR can be briefly recast as –what is the role of HR in the Corporate Governance Process. For this, let us first define as to what Corporate Governance is. Like many other management concepts, Corporate Governance has a number of definitions and one that is often used is that of CII – “(corporate governance) deals with laws, procedures, practices and implicit rules that determine a company’s ability to take managerial decisions vis-à-vis its claimants—in particular, its shareholders, creditors, the State and employees”.



Simply put, the purpose of Corporate Governance is to achieve a responsible, value-oriented management and control of companies. At the very heart, corporate governance rules should promote and reinforce the confidence of current and future shareholders, lenders, employees, business partners and the general public, which in turn will ensure the sustainable growth of the organization.

Before we address the question of how HR can ensure or facilitate the process of Corporate Governance, it will necessary to first review as to what is it about Governance that can lead to the demise or fall of an enterprise. First and foremost is the aspect of disclosure; that is corporate information disclosure. The experiences of World Com and Enron have left the need for a lot to be done and questioned in organizations, when it comes to disclosure and transparency. What is that information that an organization provides for and what is it that it needs to do in order that this

information is properly disseminated among its shareholders in particular and public in general? Does publishing a good annual report tantamount to and encompass all issues pertaining to what is known as Fair Disclosure? And how is information in the annual report stated? Is



it lucid and understandable to the ordinary investor? For instance, a 2000 Annual report of Enron had the following "Enron builds wholesale businesses through the creation of networks involving selective asset ownership, contractual access to third-party assets and market-making activities." Like Forbes magazine rightly commented, 'Enron's discussion of its



finances reads like something written in German, translated to Chinese and back to English by way of Polish.'

The second aspect pertains to leadership. Most organizations which have faced a demise have had at their center a high profile CEO/MD, a person who more likely than not, thought about the enterprise as

his/her own fiefdom which could be run according to his/her rules. In a study conducted by the Professional Accountants in Business Committee, in 2002, it was found that in five out of seven cases, the CEO played a greater role in the business failure, than any other factor.

Fig.1: **Significance of different factors in the failure of an organization**

Organization	<i>Ethics/ Culture at the top</i>	<i>CEO</i>	<i>Board of Directors</i>	<i>Internal Controls</i>	<i>Aggressive Earnings Mgmt</i>
Ahold (Netherlands)	**	***	*	***	***
Enron (US)	***	***	***	***	***
WorldCom(US)	***	***	***	***	***
Xerox(US)	***	***		***	***
Vivendi		***	**	***	
Cable & Wireless (UK)		**	***	***	
D Tripovich (Italy)			***	**	
France Telecom	**	**	**	**	

*= Issue Has relatively minor significance; ** = Issue has moderate significance

***= Issue has major significance

(Source: International Federation of Accountants, "Enterprise Governance: Getting the Balance Right")



A third aspect pertains to ethics and moral conduct (morality as related to/or pertaining to business issues/matters), generally prevalent in the organization, ie how the organization views, and acts on matters pertaining to these issues. Some organizations, such as Tatas, immediately come to our mind as organizations which conduct business ethically.

The question therefore is, can HR play a role in all of this? The answer is obviously yes. Across the HR value chain, from recruitment to learning & development to reward management to career & succession planning, HR can play a significant role. By conducting

appropriate tests and background checks (reference checks), the organization can ensure that it recruits people who are in sync with the value systems professed and practiced by the organization. This is perhaps the most critical aspect of the whole process, since, as in the words of Jim Collins, it will be necessary for the organization to first determine *who it wants to be on the bus*. So, if the *destination of the bus* is, conduct of business ethically (apart from profit and other objectives), it should ensure that it has screened the right people to get on to the bus. The second aspect is, what elements in the organization are constantly reinforced – in terms of training and development. Many leading organizations known for their value systems, such as Lewis Strauss, spend considerable amount of monies and energies in developing, communicating and ensuring internalization of the organizational values. The third and perhaps most important element is the



reward and recognition mechanism. People will behave and perform those acts which are eventually recognized and rewarded - if the organization constantly places the goals/ends over the means, ie. rewards the ends (achievements) irrespective of the means adopted, then people in the organization, as a whole, will develop a tendency to throw caution to the winds in reaching their goals. And as the list (in the table above) shows, most organizations which have failed are those which favored “quarter performances under any circumstances” over long term survival. And when an organization begins to reward and recognize those who are as interested in “how a goal is achieved” as the goal itself, it will begin to develop leaders who will carry them this

value system as they head to the CEO’s post.



In today’s world where the survival of organizations is important not just to the employees but the nation as a whole (remember all the share holders who lost their shirts when Enron went under), HR will have to play an active role in ensuring that they build an ethical enterprise.



Visisht Corporate Growth Associates Pvt. Ltd. is a leading management consultancy that provides complete business solutions to medium and large sized organizations. Its key service areas are HR, Organization Development, Operations Management and Strategy.

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