



A Company Incapable Of Good Governance Does Not Deserve Profits: Vikram Singh Mehta

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At a time when several Indian companies battle corporate governance concerns, Vikram Singh Mehta, executive chairman at Brookings India, said there can't be a tradeoff between transparency and profits.

“A company that does not make profits, probably cannot afford corporate governance,” Mehta said at the *Gatekeepers of Governance* conference in Mumbai. “But a company that is incapable of good governance does not deserve profits.”

While a business model is important and profits cannot be made without that, he said, a company can generate long-term shareholder value only if it has transparent good governance.

“**If you have a management that feels that its only objective is maximisation of profits, to meet demands of shareholder, then, I believe that in today's world, it might not be applicable. It might have been applicable some years back, but in today's world, and looking forward, that company, that management will lose its licence to operate. You have to look beyond the narrow purpose of the shareholder.**

Vikram Singh Mehta

Mehta, former chairman at Shell Group, along with State Bank of India Managing Director Arijit Basu, spoke at *Governance Premium: A Myth Or Reality* session moderated by TV Mohandas Pai, chairman at Manipal Global Education.

According to Mehta, governance pays. “I, for one, don't think that governance premium is a fiction, or myth,” he said. “There is enough evidence to establish that reputation matters. We know that institutional investors will pay a premium to acquire stock of companies that are better governed.”



Right to left: Former SEBI Chairman M Damodaran with TV Mohandas Pai, chairman of Manipal Global Education, Vikram Singh Mehta, executive chairman at Brookings India, and former chairman, Shell Group India and Arijit Basu, managing director, State Bank of India. (Image: BloombergQuint)

Determining Premium On A Business

Both government-owned businesses and MNCs have good corporate governance practices in place. Then why do MNCs tend to attract a better premium? The difference in reality and perception could be a major factor, says Mehta.

“Good governance does attract a premium, and if a government-owned company wants to secure the same premium as a multi-national, or a privately run company, then it must make an effort to bridge the gap between perception and reality. It’s a matter then, of communication.”

The real issue, according to him, is, how do you realise that premium? “Communication is one. However, there are multiple stakeholders that impact the governance of a company, and it’s a very narrow corridor within which all the stakeholders have to come together to collaborate, in order to realise that premium.”

The process of securing long-term value from good governance is a long journey, Mehta said. “It’s not a one-off. It requires multiple stakeholders to find a way to stay within the narrow corridor and collaborate.”

An independent director must not look to enhance his/her powers, a manager should not manage the company as an autocrat, and the regulator should ensure that there is predictability, consistency, and not an intrusiveness that exists today, he added.

Expanding Definition Of Shareholder

Basu said the definition of a stakeholder cannot include only investors and the way “we look at capitalism has to change”.



When we now talk of shareholder, I don't think any company or any board can think of a shareholder in the narrow sense of only the investors in the company. It has to be all the stakeholders. It would include environmental concerns, social responsibilities in poorer companies. Those things are a given.

Arijit Basu, MD, State Bank of India

Do Superstar CEOs Ensure A Premium On Governance?

Mehta said there are enough examples of superstar chief executive officers destroying companies. "My biggest concern is that corporate governance has become a mantra. It's a chant heard in every boardroom. The worry that I have is that is it a rhetorical flourish that is lacking conviction, or is it embedded in core values of the company?"

His biggest concern is that while corporate governance chant is heard in every boardroom, is it a rhetorical flourish that is lacking conviction, or is it embedded in core values of the company?

According to Basu, in the absence of good corporate governance, chances of a business model falling apart are higher. Pai, too, placed a premium on governance citing:

- ◆ It reduces risk
- ◆ It motivates employees to be more productive
- ◆ It creates sustainability and longevity in business which is good because mortality in business has become higher
- ◆ It creates a bond with customers
- ◆ It helps in hiring process because people respect you

"Corporate governance fosters innovation because it's about free thinking," said Pai. "But you cannot compromise on a business model, growth and aggressive competition."

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