Editorial

In the latest development of the political roller-coaster that India is now, Dr Manmohan Singh, the captain of the India Inc. has asked the passengers on board to fasten their belts and get ready for a fascinating journey ahead. The decision of the Government to introduce FDI in multi-brand retail, aviation and insurance sectors is perhaps just the right prescription that the doctor ordered if we are to achieve even the truncated target of average annual economic growth. The markets responded favourably as the 30-stock Sensex zoomed past 18500 and marching steadily towards the 19000 mark soon albeit amidst stiff political opposition and nationwide strike inflicting huge financial losses – at a time the nation was yet to recover from the shock of the "Coalgate" and the considerable hue and cry that brought down parliament to a grinding halt for days together. But 'Coalgate' is only a tip of the huge iceberg of scams India is mired with! A series of scams points towards the fact that India is on the throes of a governance crisis. Scams are not new in India; we had them before. But the gravity of the situation lies in the fact that each new scam dwarfs its predecessor and at the epicentre of each scam we have one or more person from politics. Under a democratic system the politicians are the 'agent' of the people who elect them to protect public interest. The success of the democratic system of governance lies in the probity of those agents.

The problem of governance lies not only with our political system, but the contagion has spread and debilitated our economic institutions, particularly the corporate organisations. Corporate governance is now a major problem and it is not only India-specific, but a global one. Almost every day we find one or more corporation making headlines of the newspapers, for the wrong reason. Worldcom, Tyco, Enron and Satyam are only some big names out of several others, spread across each decade, which were hit by governance failure. The Satyam episode is not much different.

Corporate governance mechanism has some similarities with our democratic governance system. Here, being absentee owners, the shareholders appoint the board of directors and auditors to look after their interest. But the problem in most cases, as we face it with our political governance, is that the agents or servants of the shareholders are more interested in promoting their self-interest than that of the shareholders who appoint them. Enron, one of the largest US corporations, had fallen prey to not only executive rapacity, but the board of directors, even though comprising fairly with independents, had failed in their basic fiduciary duties. The auditors of the company, one of the big eight in the profession assurance service, fared very poorly in carrying out their basic duties.

However, in this context, the rule of the society appears to be straight and clear: whenever people or communities have failed to self-regulate themselves, others have intervened. The Sarbanes-Oxley Act, which is fallout of the Enron disaster, has now given sweeping powers to the lawmakers to intervene. The draconian law not only casts stringent duties upon the board of directors as well as threats for severe punishments for failure to carry out their fiduciary duties, but the auditing profession has been shorn off its distinction and prestige by subjecting it to the scrutiny from the Public Company Accounting Oversight Board. In India, if the Companies Bill 2011 comes into effect we will see much of those provisions in the statute book. But before we explore the legal mines further for more arsenals, an important question remains to be answered is whether law and codes are substitutes for ethics.

While I leave my dear readers to deliberate on this, the present issue of the Management Accountant has been themed upon Ethical Governance, the need for which can hardly be over emphasized. This issue is enriched with the well-thought-of opinions from a galaxy of scholars in the field of governance.

Happy reading!