

## **Message by the President**

**Global Compact Network, India**

**4<sup>th</sup> Subir Raha Memorial Lecture**

**by**

**Mr. U.K Sinha**

**Date: July 1<sup>st</sup>, 2013**

**Venue: Scope Auditorium**

Mr. U.K Sinha, Chairman, SEBI, Ms Lise Grande, UN resident coordinator in India, Dr. Uddesh Kohli, Senior Advisor, United Nations Global Compact, members of the Global Compact Network, India, colleagues from ONGC, friends from the media, my young friends from the student community, ladies and gentlemen.

As President, Global compact Network, India, it is my pleasant duty to welcome you to the Fourth Subir Raha Memorial Lecture to honour the memory of the erstwhile charismatic and beloved Chairman and Managing Director of ONGC as well as founding President of the Global Compact Network, India. Though he has left us for a better world, his vision, deeds and actions continue to inspire and motivate us even today.

Each year, two institutions that have benefited immensely from the leadership of Mr. Raha, PETROTECH Society and GCNI host a memorial lecture to honour his memory. Later this year, on August 28<sup>th</sup>, PETROTECH Society will also host its Fourth Subir Raha Memorial Lecture that will be delivered by Dr. Anil Kakodkar, while we at the Global Compact Network, India are indeed honoured to welcome Mr. U.K Sinha to deliver today's lecture.

The hydrocarbon sector knew Mr. Raha well as an industry leader who straddled both the upstream and downstream sectors, a rare combination, with great expertise and distinction. My colleagues from the hydrocarbon sector know Mr. Raha well; however colleagues from the Global Compact fraternity may not be so well acquainted and therefore allow me a brief introduction of this illustrious industry leader.

Mr. Raha started his career in the Indian Oil Corporation Limited as a graduate trainee and rose to become its Director (Human Resources) before joining ONGC as its Chairman and Managing Director in 2001 and led India's largest Public Sector Enterprise for five years. Under his watch, ONGC's market capitalisation zoomed to become the highest among Corporate India. With intimate knowledge of the refining and marketing sector, he led the acquisition of Mangalore Refineries and Petrochemicals Limited a Private Sector Company, led an aggressive deep water exploration campaign that placed ONGC amongst the few operators globally that had undertaken such deep exploration forays and initiated action on arresting declining production from our ageing producing oil fields and initiated Improved Oil Recovery and Enhanced Oil Recovery projects. Thanks to his initiative, today ONGC has not only managed to arrest its declining production, but actually added nearly 80 MMT of oil from these projects. One of his pioneering 'Gas - to - Wire' projects, ONGC Tripura Power Company's 726 MW facility at Palatana was recently inaugurated by the Hon'ble President of India.

All this was achieved in his term of five years and it is the momentum that he provided to the organisation that continues to serve us well even today. I was privileged to serve with Mr. Raha as Chief of Corporate Communications of ONGC at Delhi reporting directly to him. The learning for me during this was profound I treasure this legacy each day and thank.

Our Guest today, Mr. U.K. Sinha, Chairman, Securities & Exchange Board of India, quite honestly, needs no introduction as he is a newsmaker practically every single day. I approached Mr. Sinha during SEBI's Silver Jubilee celebrations in Mumbai to deliver this lecture and Sir, I am extremely grateful to you that you graciously accepted our invitation.

As host, I reserve the privilege of a formal, albeit brief introduction of Mr. Sinha to the House.

Mr. Sinha was appointed Chairman, SEBI on February 18, 2011. Prior to this assignment, he was Chairman & Managing Director of UTI Asset Management Company Ltd. and Chairman of Association of Mutual Funds in India. As an IAS officer, he earlier held several key positions with distinction in the Ministry of Finance, Government of India and actively contributed to financial sector reforms in the country. He is also credited with starting the micro pension movement in India. He has served as Chairman of the Working Group on Foreign Investment in India formed by the Government of India and was member of several committees set up by the Government of India including the Committees on Liquidity Management, Foreign Institutional Investors, Corporate Bond Market and Investor Protection.

Just the other day it was reported in the National Press that at Mr. Sinha's initiative, SEBI has allowed small and medium enterprises to list their shares without an initial public offer. This move will surely boost sentiment across the country's start-up ecosystem and is also welcome news for entrepreneurs from the Global Compact fraternity focused on sustainable development initiatives. I am hopeful that with today interaction, Mr. Sinha's connect with the Global Compact fraternity will strengthen further and lead to a better understanding of the work we do. This tether will surely strengthen going forward and we will seek SEBI's support for some of our key initiatives that we are presently working on that include Global Compact Awards and composite ranking of industry on the triple bottom-line concept.

Today, Mr. Sinha has chosen to speak on 'Expanding Paradigm of Corporate Governance', a subject close to his heart. Corporate Governance is now slowly but surely migrating from the time when this exotic sounding phrase was much bandied about in Board Rooms, but was invariably given the go - by in implementation. The last decade has witnessed much progress as norms and formal guidelines have emerged and gradually from the 'desirable' it is moving toward mandatory compliance.

Spencer Stuart, a US based executive search firm has tracked progress on Corporate Governance issues for more than two decades and publishes an annual Spencer Stuart Board Index of 'S & P 500 Companies'. It is now in its 27<sup>th</sup> edition released in 2012 in which it presents the inter-temporal performance of companies for the past decade i.e. since 2002 current upto 2012.

Allow me to share a few of its findings.

- On gender diversity of the Board, it reports that in 2012 the figure stood at 17%, up from 12% in 2003
- The percentage of independent directors has increased from 79% in 2002 to 84% in 2012
- In 2002, the CEO was the only non-independent director on 31% of S&P 500 boards compared with 59% of boards today
- In 2002, one-quarter of S&P 500 boards separated the chairman and CEO roles, compared with 43% today. Meanwhile, 23% of S&P 500 boards in 2012 have a non-executive chairman who is truly independent

The financial oversight of boards has increased as is evident from the following finding:

- The percentage of chief financial officers, treasurers or other financial executives serving as the audit committee chair increased from 4% in 2002 to 33% in 2012
- In 2003, 21% of boards reported having a financial expert — 146 financial experts in total — versus 2012, when 100% of S&P 500 boards report having at least one financial expert for a total of 1,096
- Fewer active CEOs and other top corporate leaders are serving as audit committee chair. Active CEOs, chairs, presidents and COOs made up 27% of audit committee chairs in 2002 versus 10% in 2012

A few other notable findings are:

- Audit committees meet more often than in 2002. On average, S&P 500 audit committees had five meetings in 2002 versus 8.7 in 2012
- CEOs are now much more focused on managing their own companies as the average S&P 500 CEO in 2012 sat on 0.6 outside boards that is half the 1.2 average in 2002
- The percentage of S&P 500 boards with a nominating committee made up entirely with independent directors rose from 75% in 2002 to 99.6% in 2012
- Average number of board meetings each year increased from 7.5 to 8.3, up by 3%
- One-quarter of new independent directors are active CEOs, COOs, chairmen, presidents and vice chairmen, down from 41% a decade ago
- Division / subsidiary presidents and other line and functional leaders now make up 22% of all new directors, versus 7% a decade ago
- Retired executives and those with financial and global experience also popular

In addition, the report lists the following top five Governance issues that required most attention from Boards in 2012:

- Executive Compensation
- Board's role in corporate strategy discussions
- CEO succession planning
- Director recruitment
- Say on Pay

Though there are other reports that capture findings of annual surveys, I chose this report as it captures a ten year trend and gives us incremental change over a decade. This is a small sliver from the report, but is indicative of progress that Corporate Governance has made over the past decade in U.S. public company boards today that are more independent from management, more financially savvy, more diverse and older. I could not access a similar report on Indian companies, but I suspect that the trend may be somewhat similar, though the pace may be a tad slower as the pace of change in the US was prompted primarily by enactment of the Sarbanes-Oxley Act and new exchange listing requirements and though in India Clause 49 stipulations came into force in 2003, we still await the new Companies Act to come into force shortly.

We in the public sector space have been governed by Clause 49 stipulations since 2003 when it came into force as well as by the DPE guidelines on Corporate Governance that came into force in 2010. On performance appraisal of Boards on Corporate Governance, many rating companies have been offering services almost since a decade, but principally on account of process non – uniformity, they have not gained much acceptance. However, The Institute of Company Secretaries of India (ICSI) has broached the idea of a standardised corporate governance rating model and is in discussion with SEBI on its design and implementation. Mr. Sinha will surely speak more about this in his address.

In summation, Corporate Governance has been making steady progress and is driven more by stipulation and compliance rather than volunteerism and this trend is likely to continue. This subject has a natural convergence with the ten universal principles of the United Nations Global Compact movement on Human Rights, Labour, Sustainability and Anti – corruption and we therefore offer to undertake outreach and capacity building initiatives in association with SEBI.

Sir, I thank you again for so graciously accepting our invitation and welcome all patrons once again to the Fourth Subir Raha Memorial lecture.