

Global Convention 2011

11th International Conference on Corporate Governance

&

2nd Global Conference on Sustainability

Corporate Governance & Sustainability Challenges

12-14 October, 2011,

Radisson Edwardian Bloomsbury Street Hotel, London

Paper by



Prof. Poonam Kumar

Chairperson

Mega Ace Consultancy

Sustainability: Opportunities and Challenges



The World Economic Outlook recently published by the International Monetary Fund (IMF) has predicted a global growth averaging about 4 percent in 2011 & 2012 down from 5.1 percent achieved in 2010. Although the global economy is seeking to rebound from the 2008-09 recession, figures indicate that growth was not evenly distributed across countries. Whereas, emerging economies averaged 7.3 percent growth in 2010, advanced economies averaged just 3.1 percent growth. Among large economies the biggest GDP gains was seen in India (10.1 percent), China (10.3 percent), Brazil (7.5 percent). On the other hand, continuing uncertainties in mortgage and financial markets resulted in slower growth in Japan (4 percent), the US (3 percent), and the European Union (1.8 percent).

The World Economic Outlook (September 2011) predicts that the economic recovery has become much more uncertain. It states that the world economy suffers from the confluence of two adverse developments - a much slower recovery in advanced economies since the beginning of the year and a large increase in fiscal and financial uncertainty which has been particularly pronounced since August 2011. As the document puts it, "Each of these



developments is worrisome - their combination and their interactions more so." The table below shows the growth forecast for various economies.

World Economic Outlook			
	ACTUAL 2010	FORECAST 2011	FORECAST 2012
Global growth	5.1%	4%	4%
Advanced economies	3.1%	1.6%	1.9%
United States	3.0%	1.5%	1.8%
Euro zone	1.8%	1.6%	1.1%
United Kingdom	1.4%	1.1%	1.6%
Japan	4.0%	-0.5%	2.3%
Emerging economies	7.3%	6.4%	6.1%
China	10.3%	9.5%	9.0%
India	10.1%	7.8%	7.5%
Russia	4%	4.3%	2.7%
Brazil	7.5%	3.8%	3.6%
Crude oil price	\$79.03	\$103.20	\$100
<i>Source: International Monetary Fund</i>			

Today, the world economy faces a major challenge. The fiscal stimulus packages put in place in 2009-10 required most countries to run budget deficits. Treasuries issued new public debt - totalling \$ 5.5 trillion since 2008



- to pay for the additional expenditures. To keep interest rates low, many central banks monetized that debt, injecting large sums of money into the economies. As economic activity picks up, central banks now face the difficult task of containing inflation without raising interest rates which threaten to stifle out further growth. At the same time, governments face the difficult task of spurring current growth and employment without saddling their economies with so much debt that they sacrifice long-term growth and financial stability.

The world also faces numerous other challenges. In 2010, global unemployment continued to creep upwards, reaching 8.8%. In addition the 80 million people added each year to an already overcrowded globe is worsening the problems of underemployment, pollution, waste-disposal, epidemics, water-shortages, famine, deforestation and depletion of non-renewable resources.

Can these challenges being faced by the world economy today be seen as opportunities for entrepreneurs to find sustainable solutions? Even as we give yes for an answer, we need to remember that the collapse of some of large



corporate entities where hundreds of thousands were employed once again raises the questions on the standards of Corporate Governance that exist the world over.

Datasets Countries	Unemployment Rate <i>(% in 2010 est)</i>	Inflation <i>% (2010 est.)</i>	Budget Deficits <i>% of GDP (2010 est.)</i>
World	8.7	developed countries 2.5% developing countries 5.6%	5.3
India	10.8	12	-5.5
China	4.3 <i>(Sept 2009 est.)</i>	3.2	-2.1
Brazil	6.7	6.7	4.2
United States	9.6	1.6	-8.8
European Union	9.5	1.9	-
Japan	5	0.7	7.7

Economists across the world are considering the current Credit Crunch or Global Financial Crisis, as the worst financial crisis to hit global economy since the Great Depression of the 1930s. It is a crisis that has led to the collapse of large financial institutions, bailouts of banks by national governments, and downturns in stock markets around the world. It is a crisis that has contributed to the failure of key businesses, declines in consumer wealth estimated in trillions of U.S. dollars, and a significant decline in



economic activity, leading to a severe global economic recession which began to show up towards the later part of the last decade.

It is my privilege to be here to share my thoughts on this topic of great relevance today.

Faced with the challenge of a slowdown in the global economy, businesses now want to rework on evolving new growth models that are sustainable. A collapse of the US sub-prime mortgage market and the reversal of the housing boom in industrialized economies have had a ripple effect around the world. Financial products and instruments have become so complex and twisted, that as things start to unravel; public trust in the whole system has started to fail.

Sovereign Debt Crisis and New Challenges

As the global financial crisis began, financial institutions started seeking bailout packages from their governments. Several government initiatives were put in place to contain the collapse of large institutions which could have serious implications in their national economies. However there is a growing concern on these bailout packages. Many feel that the very



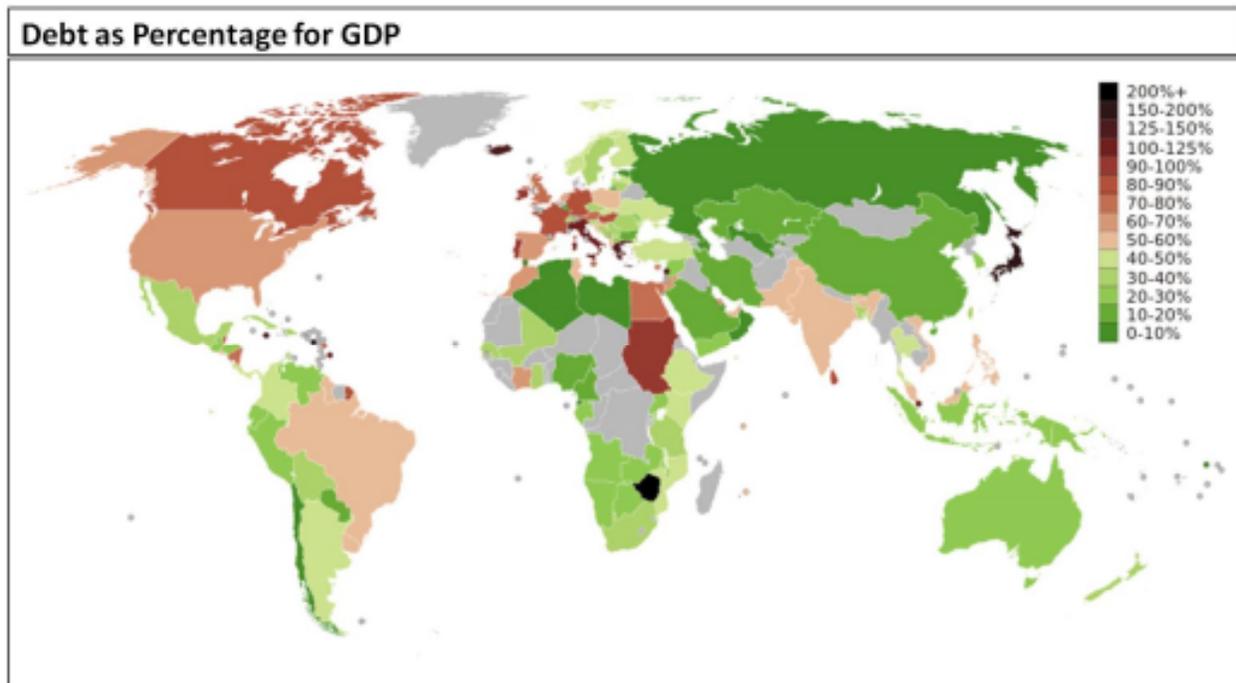
corporate/banks/financial institutions who are responsible for creating the problems are the ones that are being bailed out. On the other hand, it is feared that a global financial meltdown could affect the livelihoods of almost everyone in an increasingly inter-connected world.



New challenges have emerged across the world - the sovereign debt crisis in Europe more particularly in Greece, the rating downgrade of the US and the unsustainably high debt in many other parts of the world. As the debt crisis continues to unfold in Europe, every country feels threatened.



Greece has been a major cause for worry. With a debt estimated at \$490 billion, the recovery of Greece from the present financial crisis seems to be hampered by international market speculators. The package for Greece by the EU and the IMF consists of a first loan of \$155 billion in 2010 and a second loan of \$110 billion this year with private banks and investors making loans of \$71 billion to the rescue package. Experts however believe the Greece's debt is a symptom of the crisis, not the cause in itself. The cases of Greece, Portugal and Ireland go beyond the financial crises of these countries and challenge the vision of European integration.





Quick Gain versus Sustainability

In a world that has moved a long way from the barter system to hedging and trading in futures, entrepreneurs today are more interested in creating business entities that generates quick value and then finding an exit option from their business to accumulate huge personal wealth. We thus have growing disparities of wealth in our societies not just in emerging economies but also in several developed countries.

On the other hand, traditional businesses were founded with the concept of creating long-term sustainability and value for the nation's economy. The founder sought to create a legacy that he wished to pass on to his following generations. He believed in managing resources and investing them in the most productive manner thus creating a value for both his business and society at large. Being honest was a way of life. Ethics & transparency was the bedrock on which business was established. These were the fundamental principles which were required to build a sustainable business.

Today, businesses are viewed differently and more attention is now given to the balance-sheets and the numbers it exhibits. As the traditional business



concept of creating long-term sustainability takes a back seat, the failures of large and trusted enterprises like Enron, Lehman Brothers and frauds like that of Satyam have shaken the faith of people.

A recent commentary by Nathaniel Foote and Michael Beer, "The New Governance Paradigm: The Board's New Role in Ensuring Healthy, High Performing Firms" presents this irony of our times,

“The board members of Lehman Brothers, Bear Stearns, AIG and Merrill Lynch in 2008 read like the who’s who of American society. There were not renegade individuals who were personally making huge sums of money by taking outrageous gambles with other people’s money. They included captains of industry, university professors, public servants and foundation trustees. Yet they presided over a disastrous set of decisions that nearly brought down the global financial system.”

Crisis in Culture of Governance

However the spotlight on corporate governance is not just limited to the financial sector alone. The recent closure of British newspaper “News of the



World” shows the damage insufficient corporate governance can do to a company. The “News of the World” had a long history of exposing corruption in business and politics. But it shocked the world to know that the newspapers had been transgressing the thin line of personal privacy bringing down what was expected to be a bastion and pillar of democracy. Environmental disasters like the 1984 Union Carbide gas leak in Bhopal or the recent BP oil spill in the Gulf of Mexico have also raised serious questions on Corporate Governance norms of these companies. At the other end of the spectrum, rapidly developing countries like India are also waking up to the need for enhanced governance in public administration which is evident from the enormous support that the recent anti-corruption movement was able to mobilize.

Corporations of today are no longer sheer economic entities. They are the engines of national transformation. In an age, where capital flows world-wide, a culture of corporate governance has become the need for the future growth and stability of companies and governments as well.



Need for Equitable and Inclusive Growth

As corporations and governments have increasingly been confronted with managing the expectations of a society newly alerted to the social and environmental risks of economic development, recognition is dawning that achieving a sustainable world is dependent upon the democratic management and equitable distribution of these risks for now, and for the future.

A report published by the International Labour Organisation puts global unemployment rate at 6.2%. However, experts point out that the overall figure conceals some worrying trends. Although the developed economies of the west account for only 15% of the earth's working population, they accounted for up to 55% of the increase in unemployment between 2007 and 2010. For instance, Spain has youth unemployment of 40%, while young people in south-east Asia and the Pacific are 4.7 times more likely to be unemployed as adults. One of the root causes of the revolution in Tunisia and other parts of the Middle East was the unrest caused by having a growing number of young people without jobs. The ILO estimated that in North Africa as a whole about 23.6% of economically active young people were



unemployed in 2010. Countries are now beginning to recognize the threat to political stability created by this worklessness. One of the theories analyzing the recent London riots, points to the fact that it was an event with far deeper causes than simple random hooliganism. With most of the rioters under the age of 20, experts believe that thin job prospects was one of the main causes of disenchantment that may have led to the sense of fearlessness among the rioters.

Poverty a Threat to Peace & Development

Closely linked with unemployment is poverty. Today, poverty continues to afflict a large proportion of the world's population. More than a billion people survive on less than US\$ 1 a day and nearly three billion on less than US\$ 2 a day. Some 30,000 children die daily as a result of extreme poverty.

Companies based in the developing world have long experience of working with low-income communities, while others are increasingly encountering poverty as they seek new markets. Companies also encounter relative poverty among the poorest sections of society in the developed world, where many cannot afford the products and services that average earners may take for



granted. Experts believe that for companies, the world's poorer regions could represent an opportunity and a challenge. They believe that the vast numbers of people living in poverty today are potential consumers, employees, and suppliers. However, the challenge lies in ensuring equitable growth and opportunity in the areas and regions that they operate.

Take the case of support base of Maoist insurgency in India. A recent report commissioned by the Planning Commission of India shows that Dalits (lower caste groups) and tribal communities, together forming a support base for the Maoist insurgents in India, suffer from high degrees of poverty, illiteracy, unemployment, political marginalization, social discrimination, and human rights violations. Only certain sections of society have accrued the benefits of development, while the majority of marginalized communities have been relegated to sub-human existence resulting from the accelerated pace of dispossession and displacement.

Need for Sustainable Value

Good corporate governance is a key part of any regime which has confidence integrity and efficiency as its bedrock and which is looking to attract and



retain capital on a sustained long term basis. For this reason, it is important that good corporate governance is not only driven by compliance or regulatory requirements, but very importantly is also seen as a means by which companies and economies can improve their performance, competitiveness and socio-economic sustainability creating a value for the communities in which they operate.

This calls for the need to incorporate long-term measures into our definition of corporate success. It means, targeting profitability that is sustainable, supported by a positive record in social, environmental, and employment areas. Businesses need to prosper by helping societies to prosper, by innovating to create new goods and services and by reaching out to new customers. Leading global companies will be those that provide goods and services and reach new customers in ways that address the world's major challenges – including poverty, climate change, resource depletion, globalization, and demographic shifts.

Given today's environment of mistrust, the focus for the Board should be to go a step further and make sure that enterprises that they represent are



working on the right business strategy that brings long-term sustainability and value for society. Creating long-term value for society, calls for ensuring transparency, good corporate governance ethics and a strong corporate culture, all of which are contributing factors for the economic growth of any nation.

Conclusion: Need for Social Engagement

Agreeably, there can be no single model of good corporate governance. Entities across the world have collapsed in spite of hefty regulations and legislations. In such times of crisis, when the future looks bleak and the past tends to haunt us, it is for political and corporate leaders across the world to evolve dynamic growth models that will save the global economy rather than let it be dragged into the past.

This calls for a change in the attitude, the need to adopt more ethical and transparent way of conducting business along with innovation and creative thinking. There is also a need to develop newer and sustainable models of social Public Private Partnerships that seeks to achieve sustainable growth capable to impacting larger sections of people.



Good corporate governance structures in such times of crisis calls for the need to develop strategies of social engagement. There is a need to encourage companies to create value through entrepreneurship and societal participation. It calls for the creation of good business models and values that place a premium on innovation and creativity to find solutions to some of the grave challenges that modern society faces from environmental degradation to the need to bring about inclusive growth. It calls for the constructive engagement of our youth and channelizing their energies as productive participants of society.

It is time that we return to supporting bankable, sustainable projects and nurture corporations and business with strong foundation that are well versed to be managing their risks. It is not all about regulations but some basic ethics of conducting business focusing on the sustainable value that businesses will generate for their stakeholders and for the society at large.

Despite the many challenges that it faces, the global economy has also shown great promise and resilience. In a globalised world, technology has made possible further advances in all fields, from agriculture, to medicine,



alternative energy, metallurgy, and transportation. Rapid improvements in global communications has also greatly reduced the costs of international trade, helping the world accrue gains from the international division of labour for raising the living standards of people across the world and reducing income disparities among nations. As long as these development challenges exist in the economy - issues of demand and supply, conflicts on climate change, limited supply of oil and energy - there will be opportunities for entrepreneurs to find sustainable solutions to meet these challenges.

As countries brace up to face these developmental challenges, innovation and scientific development will prove to be the corner-stone that will impact sustainability in the coming years. However, comparative World Bank figures on the Patents filed in countries shows a distinct lopsidedness in the sphere of innovation and scientific growth. Whereas in 2002, 220 patents were filed by Indians which is considered good by third world standards, 198,339 patents were filed in the US and 371,495 were filed in Japan. The number of journal articles published by Indians in 2001 was 11,076; the figures for US and Japan were 200,870 and 57,420 respectively. Although, there is a lot of scientific work happening in rapidly developing countries like



India, the challenge lies in building global collaborations that are capable of converting these opportunities into sustainable ventures.

Emerging economies like India has seen an average growth of 7-8 percent offering huge potential to the world at large. With a growing middle class expected to comprise about 40 percent of India's population by 2025 and the world's largest working population by 2030, the question of demographic dividend is at the centre of the discourse in India's growth story.

The challenge and opportunity for attaining sustainability thus lies in new generation entrepreneurs being able to align the scientific & technological advances achieved by developed economies with the potential that exists in developing counties thereby seeking to generate equitable socio-economic growth.