



For Immediate Release

## **Need for moderate regulations, but exemplary enforcement and stronger regulatory review**

### **KPMG's corporate governance poll**

- Need to intertwine governance regulations and practices – through exemplary enforcement and stronger regulatory oversight
- 73% of the respondents believe that risk management practices need to be improved including risk oversight at the board level
- A significant majority believe that there is need for greater empowerment to independent directors
- Training of board members and board performance evaluation should be a key requirement in the context of heightened governance challenges
- While steps have been taken to introduce the code of conduct, there exists a significant need to enhance integrity and ethical values in the larger corporate ecosystem

**Mumbai, 6<sup>th</sup> may, 2009:** In light of recent events, corporate governance practices of Indian companies have increasingly become the subject of most public discussions and debates. Amidst this ongoing debate, KPMG today released its report '**The State of Corporate Governance in India: 2008**' based on a **corporate governance poll** conducted by **KPMG in India**.

According to the poll, two-thirds of the respondents were of the view that there is scope for improvement when it comes to board members having the right information and enough time to discharge their duties. 73 percent of the respondents believe that risk management practices need to be improved. 85 percent of the respondents think that the remuneration of Chief Executive Officers (CEO) should be significantly linked to company performance. A significant majority would also prefer greater empowerment to independent directors. While, Thirty-five percent of respondents consider weak oversight and monitoring as the biggest risk to corporate governance, twenty-one percent perceive management override as a greater risk. However, there is a mixed response on Corporate Social Responsibility (CSR) priority for Indian corporates

The poll, conducted between late November 2008 to early January 2009 roped in close to **100 respondents** comprising of CEOs, CFOs, independent directors and business leaders from business spheres as diverse as private equity, financial services and manufacturing. A key finding that emerged from the poll was the need for exemplary enforcement and stronger regulatory review.

Speaking on the occasion, **Neville Dumasia, Executive Director and Head of KPMG in India's Governance, Risk and Compliance Services** said, "If an organization is to be able to stand for its integrity and be accountable, it will certainly augur well to evaluate the performance of board members, link the compensation packages of CEOs inextricably to company performance and have objective and independent whistle-blowing

mechanisms to deal with ethical wrong doing. These are areas where India Inc needs to up the ante considerably.”

*“There are a few areas where regulation could be strengthened such as limiting the number of directorships, mandating greater role for nomination committees in independent director appointments and instituting swift and stringent punishments, however there is no need to re-invent the wheel”, added Mr. Dumasia.*

KPMG’s poll has found room for much improvement when it comes to board members having the right information and sufficient time to think through their memos and discharge their responsibilities effectively.

**Mr. Dumasia** opines *that in the current economic climate companies have to carefully consider how the rapidly changing internal and external environment affects their business and resultant strategies and hence risk management should be a top priority for senior management and boards. This is also a challenge in the short term because there is now an expectation for boards to be more vigilant and hands-on and this requires that independent directors are also adequately trained to meet the growing expectations”.*

The poll also highlighted that there is a need for greater empowerment of independent directors and there is still some way to go in protecting minority shareholder interests. *“So long as we continue to have a process wherein independent director appointments are largely driven by promoters, empowerment of independent directors and protecting minority shareholder interests will continue to be areas of concern”* according to **Richard Rekhy, Chief Operating Officer and Head of Advisory Services of KPMG in India.** *“In such situations, it is difficult to get the independent directors to act in the best interests of a wide array of stakeholders encompassing minority shareholders, employees, customers and vendors it may be time for formation of an Independent Body, which may be funded by listed companies and whose primary objective would be to ensure registration of all Independent Directors. This would ensure that all companies requiring to appoint Independent Directors have access to one common platform which would match skill sets to their requirements ”,* added **Mr. Rekhy.**

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## About KPMG

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KPMG in India has offices in Mumbai, Delhi, Bangalore, Chennai, Hyderabad, Kolkata and Pune and services over 5,000 international and national clients. The firms in India have access to more than 3500 Indian and expatriate professionals.

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