Annual CFO100 Felicitation Ceremony
Mr. U.K. Sinha, Chairman- March 19, 2015- Mumbai

It is a great pleasure and privilege to be here with all of you this evening on this important occasion to honour and felicitate the top 100 CFOs in India. Indeed, I must say in all humility that I consider this award as an encouragement to all in the business community, who have been working tirelessly and in the face of many odds to make India into a country that we can all be proud of. It is more of a tribute to the entrepreneurial spirit that has made India a dynamic leading economy.

In the fast changing world of today, CFOs have to position themselves along with CEOs as primary drivers of corporate strategy. They have to work as a strategist rather than a tactician to ensure the financial health and sustainability of their organizations and, most importantly, to ensure that shareholder interests are protected. Although providing financial and non-financial information and analysis is part of the role and plays to the traditional strength of professional accountants, a CFO is expected to contribute to strategic and management thinking as the partner to the business unit heads. At the end of the day, the organization and CFO are judged on the success or failure of the strategic choices made. To name a few, the Primary responsibilities of CFOs include balancing the responsibilities of stewardship with business partnership, act as an integrator and navigator for the organization, being an effective leader of the finance and accounting function and bring in efficiency in all functions- not confined only to finance.

Regulators have imposed greater scrutiny of companies' financial activities and reporting through new regulation, associated audit controls, and tougher enforcement of existing rules. CFOs are expected to continuously upgrade their internal control systems and reporting mechanisms to meet and exceed the regulatory expectations. Moreover, in more dynamic industries, increased regulatory or Board scrutiny may be limiting overall risk tolerance and slowing decision making. The nature of CFO's relationships with their Boards has changed. Board interactions have become more intense, with Boards adamant on 'no surprises.' Audit Committees, in particular, require more frequent and comprehensive updates and education. Boards are seen to be fulfilling their responsibilities with renewed vigor and unprecedented thoroughness. They are also reminding CFOs of their fiduciary responsibilities, ensuring that the CFO works (in part) directly for the Board. With implementation of Companies Act, 2013, Ind-AS and other regulatory requirements, the environment is changing dynamically. Though the changes are expected to create value for the organization and all stakeholders in the long term, in the short-term the company faces challenge of keeping itself updated with changing regulatory environment and emerging risks some changes may be easier to adhere to whereas some changes may require fundamental shift in the way company operates.

Convergence with International Financial Reporting Standards (IFRS) and overall enhancement of accounting standards, coupled with country-specific developments in regulatory regime like the Companies Act, 2013, are affecting regulatory reporting needs. As the financial spearhead of the organisation, CFOs have a direct stake in adhering to such regulatory and compliance needs. They should assess and evaluate any change in the policy regime and provide insight to the other members within the organisation, so that appropriate measures to counteract any adverse impact can be taken at the strategic level.

In near future, advanced data analytics will become invaluable in making business decisions ranging from market and opportunity identification, to business performance measurement and evaluating customer insights. Needless to say, tomorrow's CFOs need not only to cope up with such technological progress, but also to master them and harness their power.

Recent liquidity crisis in India has forced CFOs to relook at their working capital management process and have catalyzed their efforts to extract efficiencies and eliminate risk in the process. Thus, companies are forced to look at working capital from not only cash management perspective but also operational process optimization perspective also. Excess working capital suggests operational issues that also impact cost and quality of offerings. Companies are working to enhance liquidity by keeping inventory low, utilizing supplier financing and striving to reduce Days Sales Outstanding (DSO) and lengthen the payment terms with suppliers. CFOs are also spending more time on investor relations, often by talking directly with buy-side analysts and portfolio managers, in order to familiarize investors with the company's strategy, business model and economics, and underlying numbers.

Today's CFOs operate in volatile and fast-paced markets, as investors receive more information than ever before and act on it more quickly. Rapid market valuation shifts in recent years can be potentially ruinous and may require the CFO to step in whichever way the price has swung. A price that drops relative to the market requires explanation and damage control; a spike up raises questions of sustainability. Either way, the CFO stands as the company's spokesperson for explaining these issues to the satisfaction of the management team, investors, and employees.

Contribution to strengthening ethics and governance in the company

Strategic responsibility for ethics resides a step above the CFO, with the chairman or the CEO. However, CFOs are more likely to be the day-to-day guardian. CFO is the driver of promoting an ethical culture and implementing and ensuring good ethical practice. CFOs are expected to drive the process when it comes to setting a good example for the rest of the company or acting as a mentor for colleagues. Building a culture of ethics within their companies has a beneficial effect on business performance internally, in terms of staff trust, loyalty and motivation, more reliable financial reporting and improved corporate culture; and it also boosts external relationships such as those with investors, customers and analysts.

Rules and regulations are essential to draw the boundaries for minimum desired level of governance. However it is personal ethics, self discipline and self regulations of decision makers as well as stakeholders that can champion the cause of good governance. Experience has taught us that it is the Economic Downturn, as we witness worldwide today, rather than Upswing, which raises sharp focus on issues relating to Ethics & Corporate Governance.

The two Major Reasons for Corporate failures have been “Greed” and “Excess Leverage”. The moot point is whether these two need to be completely done away with? If so, what is the incentive for aggressive growth and competition? If not, how are these to be kept within controllable limits and yet higher growth achieved? It is here that Business Ethics & Corporate Governance need to be focused on.

In this context, the imperative for ethical behaviors and practices within the boardroom has arguably never been more important. Board members create a climate of integrity and responsibility within the company, expressed in both the written code and by living example i.e. both directors &promoters need to come together to build a strong ethical culture for the company, that would ensure correct behaviour/ the right behaviour, when policies are either unwritten, unclear or are unenforced.

“Ethics & Corporate Governance” are not just Moral or Compliance Issues. In the long term they are essential behavioral traits for the organisation that strengthen the organizations' “Brand Equity” and help ensure stable sustainable growth. Ethics are hardly mentioned in the corporate governance codes, yet the examples corporate mis-governance generally raises ethical issues. They concern the way those companies were governed, how power was exercised over them, and the way business risks were taken. In other words, business ethics are inherently part of corporate governance. They are not an optional exercise in corporate citizenship.

The continual expression, communication and demonstration of ethical values and practice are essential if a board wishes its organisation to operate in line with its core values, and to enjoy the benefits which doing business ethically can bring. At every opportunity, all directors should be encouraged to communicate the values and the importance of their application to the company. Communication is not just about words: “walking the talk” is important too. It means applying the code of ethics to directors’ behavior, as well as staff conduct. How does the board handle conflicts of interests? Is there diversity in the board? Is remuneration and recruitment fair and transparent?

With moral dilemmas in business it is often not a matter of right or wrong, but what’s best for all concerned, both in the company and among all those affected by its actions. Boards have to recognize issues and make choices. This is a function of corporate governance, which needs to be built on the bedrock of business ethics.

Regulatory Trends:-

The Financial Sector Legislative Reform Commission (FSLRC) has highlighted the need for the regulators to be transparent in their decision making. It has also emphasized the need for regulators to be consultative and ensure the consultation to be adopted even in the draft stage of a proposal. Decision of SEBI are challenged before SAT and the Supreme Court. The wisdom through various rulings are clear. SEBI has to follow the principle of natural justice, be fair and consistent and work towards its larger mandate. Media and other means are being used to evaluate and criticize its working. A regulator has to be accountable to a whole lot of defined and undefined stakeholders.

Similar trends of demand for transparency and accountability are also visible in other countries. Around July this year, a report has come about the US SEC. The Government Accountability Office has done a study of the US SEC. In that report, many current staff and former officials described SEC's culture as risk averse, and some also noted that aversion to risk has grown in recent years. The Report has indicated that the fear of going wrong, the fear of doing something which can be perceived to be a scandal is forcing the US SEC employees not to take a stand. They are refusing to take a stand because they might go wrong. The report also says that they are worried that how SEC will be able to fulfill its mission.

If the regulators are facing a difficult situation of accountability then there should be no surprise that corporate leaders are finding their decision challenged by shareholders, analysts, media and proxy firms. Increasingly higher number of company resolutions are getting rejected or modified. A company has to take note of them heightened accountability needs and develop a system and culture around this. I am sure CFOs can play a very important role in this.

I would like to once again extend my heartiest congratulations to distinguished CFOs of India. I thank you for inviting me and listening to me.

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