

Corporate Governance and Building Trust



Chandrajit Banerjee
Director General
Confederation of Indian
Industry

Against the backdrop of the current geo-economic and -political situation, well-defined and transparent corporate governance practices and building trust are indispensable for the sustainable development of any business. While timely compliance, operational efficiency, transparency, and accountability are essential across global operations, it is crucial for companies to get back to the drawing board and prioritize substance over form and focus on the fundamental principles of governance.

Based on the principles of fairness, integrity, accountability, transparency, disclosures, social responsibility and equitable treatment of all shareholders, corporate governance deals with laws, practices, and rules that determine a company's ability to take sound managerial decisions and balance the interest of all its stakeholders. Corporate governance has always been an imperative and played a significant role not just for companies but the entire society and the business environment in India. It has become a critical concern for various stakeholders, including governments, regulators, corporations, boards, markets, employees, and investors.

Sound governance shields companies from reputational, legal and financial risks and helps increase their market worth, differentiate themselves from competitors, encourages global investors to invest and build long-term credibility in the eyes of stakeholders. Companies that embrace good governance increase their market worth, differentiate themselves from competitors and build long-term credibility in the eyes of stakeholders.

Corporate governance is dynamic and evolves with the changing times, priorities, and relevance. Key trends in corporate governance which present both opportunities and challenges for businesses include the rise of artificial intelligence (AI) and other technologies, digital transformation, and a greater focus on sustainability, inclusion, and diversity. Furthermore, there is an emphasis on measurable steps on environmental, social, and governance (ESG) issues, stakeholder governance, Board effectiveness and evaluation, ethical leadership, cyber risk management, and improved transparency and disclosure norms.

As a result, businesses are pursuing a broader set of goals influenced by stakeholder activism, investor preferences, and societal expectations. Against this dynamic corporate governance backdrop, corporates need to consistently adjust the lens to keep their focus on the imperatives for value creation. Fostering trust-based

relationships with stakeholders and sound governance are intertwined imperatives which Corporates must not lose sight of to remain resilient and competitive in the long-run. With growing importance of corporates as responsible actors in the society and nation building, the focus on adoption of good governance continues to grow.

If a company's governance practices fail to align with the highest ethical standards, it risks a trust deficit among its stakeholders, resulting in lost revenue, higher employee turnover, increased customer acquisition costs and diminished employee morale and retention. It can also erode investor confidence, leading to a significant decrease in company valuation. In addition, reputational damage can cause lasting setbacks in market positioning, making recovery a difficult and expensive process. The financial repercussions are further compounded by legal consequences, such as lawsuits, fines, and increased regulatory scrutiny, all of which directly impact the company's bottom line.

Business organizations thus need to make concerted efforts to strengthen governance levels by adhering to ethical standards, embracing corporate social responsibility, and ensuring greater transparency. Trust is a business enabler, thus, companies known for integrity and good governance gain a competitive edge by attracting talent, investors, and global partnerships—fuelling innovation and long-term success. Trust is an intangible asset for any business.

In the face of rapidly evolving geopolitical landscapes, shifting business dynamics, growing stakeholder activism and investor awareness and changing governance norms, expectations of Boards and CEOs have intensified. A strong, diversified board with a range of expertise, encourages a culture of innovation, adaptability, and continuous improvement while maintaining ethical decision-making, transparency and accountability.

However, it is vital that corporate governance is practiced in both letter and spirit. Governance must be balanced, market-driven and purpose-oriented to ensure business sustainability in a fair and effective manner. This approach requires a combination of tactical and philosophical considerations, advocating for a principle-based governance model that fosters behavioural change and avoids turning governance into a mere checklist exercise.

As AI continues to revolutionize industries and reshape business landscapes, board members have a pivotal role in guiding organizations toward the responsible and ethical adoption of AI technologies. AI governance is increasingly becoming a strategic necessity, ensuring that AI deployments are in line with an organization's goals, ethical standards, and risk management frameworks while remaining transparent and accountable. Board involvement is critical to advancing robust AI governance. To lead effectively in an AI-driven future, it is essential to align AI strategies with business objectives, prioritize key initiatives, foster a culture of responsible innovation and promote ethical AI adoption.

Sound governance leads to Trust formation

The responsibility of building trust needs to be ideally shared between Businesses, Government and various stakeholders with focussed efforts towards public private partnerships, robust global value chains, cross-functional collaborations and geopolitical alignment to lead to trust-building and collective nation building. On the governance side, this will enhance stakeholder engagement, build brand value, deepen customer loyalty, inspire employees, and strengthen resilience during challenging times.

As stakeholders increasingly seek transparency and accountability, businesses that invest in trust can meet these expectations more effectively and build lasting relationships. Building trust can encourage regulators to adopt more supportive and streamlined policies, reducing compliance burdens and fostering a more business-friendly environment. Businesses must endeavour to take actionable steps towards planet conservation, sustainability, digital transformation, responsible use of AI, equity, inclusivity, welfare, community engagement, education and upskilling, R&D and innovation, leadership commitment and financial integrity to build trust. Adhering to the basic tenets of corporate governance helps foster trust in the entire ecosystem in which the business operates.

Transparency within business and industry, disclosure of information by the corporate sector, protection of investor interest, especially the small investor, are some of the key indicators of sound governance and can develop a high level of public confidence and trust in business and industry. To drive this objective, in 1998, the Confederation of Indian Industry (CII) took a special initiative to come out with the “Desirable Corporate Governance: A Code” – the first institutional initiative for Indian industry. Since then, and keeping pace with the global governance standards, the regulatory landscape in the country has evolved.

Over the years, CII has been releasing Codes independently and with the Government of India. In 2020, CII released the CII Guidelines on Integrity and Transparency in Governance and Responsible Code of Conduct to serve as the base for corporates (large and small; listed and unlisted) to redesign their governance strategies in the face of ever-changing business and regulatory environment. CII has also curated a Charter on Corporate Governance Practices for Startups to support Startups in their Governance journey ahead; CII Guidelines on Appointment of Independent Directors and Process of Board Evaluation; The Digital Personal Data Protection Act & Enterprises in India - Privacy for the Board; CII ESG Guidebook and Ready Reckoner for Boards of Directors, and CII Guidebook on Effective Adoption and Governance of AI for Board Leaders. These provide roadmaps for a company’s corporate governance journey and help them to focus on key areas that will build their position in industry as responsible entities.

CII Call for Action to build trust

In the CII publication on “The Shared Responsibility of Building & Strengthening Trust”, CII has explored trust-building practices among leading companies and has created a roadmap to help businesses enhance trust in line with global trends. The roadmap is based on 15 action pillars.

- Companies need to establish a clearly defined corporate purpose grounded in ethics, sustainability,

and long-term value creation, which can be a reference point for strategic decisions, fostering alignment, accountability, and transparency across the enterprise.

- Developing a robust risk and crisis management framework, by identifying areas of vulnerability—whether geopolitical, financial, operational, or technological—and implement comprehensive risk mitigation plans is critical.
- It is important to ensure regulatory compliance and financial integrity by means of clear policies, internal controls, and early corrective mechanisms, transparent financial reporting and timely statutory disclosures.
- Embracing technology and innovation responsibly and in alignment with ethical standards by adopting AI, blockchain, and automation tools is important in the current ecosystem of technological development. The objectives of technological integration must be clearly defined followed by requisite training and monitoring to prevent misuse.
- Companies need to optimize supply chain management by using technology for transparency, predictive analytics to foresee disruptions, and maintain timely payments and fair practices with suppliers.
- Assigning clear roles for trust stewardship by designating a Chief Trust Officer or entrusting an existing senior executive to lead trust-building initiatives ensures that trust remains a strategic priority.
- Management of conflict constructively and proactively to help maintain internal cohesion and external credibility goes a long way in building trust.
- Companies need to maintain transparent, consistent and honest stakeholder communication that reinforces credibility.
- It is critical to deliver consistently on promises by setting realistic goals and delivering continuously to establish a reputation for dependability.
- There is need to uphold ethical practices and integrity by establishing clear code of conduct, regular ethics training, strict enforcement of behavioural standards and demonstrating ethical leadership across all levels of the organization to reinforce a culture of fairness, responsibility, and transparency.
- Empowering and engaging employees by promoting open communication, psychological safety, inclusive policies, professional development, recognizing achievements, and encouraging collaboration is very important.
- Companies need to adopt a customer-oriented approach by providing seamless attentive and responsive service, quick issue resolution, and multiple communication channels —while also respecting data privacy concerns.
- In the larger scheme of things, it is vital to commit to ESG and social responsibility through community development, transparent ESG reporting, investment in sustainable initiatives, and inclusive practices which may help earn public goodwill and societal trust.
- Beyond everything, it is important to nurture strong, collaborative partnerships with business partners

and suppliers and ensure regular communication, fair negotiations, and mutual goal-setting.

- It is vital to build transparent decision-making, openness to accountability, and ethical role modelling by senior leaders shape organizational culture.

By embracing these 15 pillars of building trust, Indian industry can not only meet the rising expectations of stakeholders but also build resilience and be future ready.

sound governance and trust-building practices, the more benefits they reap. Robust corporate governance and trust remains as essential cornerstones for corporate long-term sustainability and success. Adhering to the timeless principles of corporate governance, in letter and in spirit and actioning on the trust building pillars mentioned above will lay a powerful foundation for the growth, resilience, and lasting success for corporates.

Conclusion

Good governance as well as building trust is not a destination but a journey. The sooner entities adopt
