

## **Transparency, the Essence of Good Governance: A study with reference to Life Insurance Corporation of India (LIC) and Dr. Reddy's Laboratories Ltd.**

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### **Introduction:**

The term 'governance' has been derived from Latin origin that suggests the notion of 'steering'. Transparency is the essence of Good Governance. From a social perspective, governance is the power, influence and relationship between citizens and governments. From the corporate perspective, it is a framework of laws, regulatory institution and reporting system. On global front, the acts like Right To Information (RTI) are there in many countries to contain corruption in Government sector. In recent years, Corporate Governance (CG) has attained importance all over the world in corporate sector.

Governance is the process of decision-making and the process by which decisions are implemented (or not implemented). The *Right to Information* is implicitly guaranteed by the Constitution. However, with a view to set out a practical regime for securing information, the Indian Parliament enacted the Right to Information Act, 2005 and thus gave a powerful tool to the citizens to get information from the Government as a matter of right. *Corporate Governance* is a system by which companies are directed and controlled based on Code of good corporate practices.

### **Objectives of the study:**

1. To study similarities/ Common threads between RTI and CG.
2. To understand differences in mechanism between RTI and CG.
3. To study two organisations where RTI and CG practices are of prime importance for Good Governance. i.e. LIC (Life Insurance Corporation of India) for RTI study and Dr.Reddy's Lab for Corporate Governance related study.

**Hypothesis:** If *Right To Information* and *Corporate Governance* are implemented in word and spirit by Public and Private sectors respectively, they (CG and RTI) will be effective tools for Transparency which is the essence of Good Governance.

### **Research Methodology**

Analysis of secondary data collected from various Books, Papers, and websites.

#### **The Similarities/ Common threads in Basic objectives behind CG and RTI are:**

The researchers found that these are the common threads:

1. Trust: In their functioning, irrespective of sectors i.e. Private or Public, Trust factor is of vital importance.
2. Transparency: Both, CG and RTI have main goal of transparent government.
3. Accountability: In CG, the Board of Directors are accountable to Shareholders. In RTI, PIO (Public Information Officers) are accountable to the citizens.
4. Code of Conduct: Private and Public sectors have to follow a code of conduct as laid down by CG or RTI, respectively.
5. Vigilance: From this point of view, CG and RTI are of utmost importance in their respective sectors.

#### **Differences in mechanism between CG and RTI:**

1. Applicability: CG is there for Private Sector and RTI is there for Public Sector.

2. There are different CG practices in different countries and different acts based on the lines of RTI.
3. Governing Bodies: For CG- Security Exchange Board of India (SEBI) and for RTI- Central Information Commission (CIC)
4. Main Players: For CG- Board of Directors (BODs) and for RTI- Public Information Officers (PIOs) are the main players.

#### **A Case Study of LIC and Dr. Reddy's Lab:**

##### **Life Insurance Corporation of India:**

**Overview of LIC:** A true saga Of Trust, for over 52 years for more than 250 million lives.

Key recent achievements of LIC:

- NDTV Profit Business Leadership Award 2012
- World Brand Congress- Global Award for Brand Excellence
- Consumer Superbrand Award
- OutlookMoney Award For BEST LIFE INSURER 2012
- CNBC TV Award For Outstanding Financial Professional

##### **Overview of Dr.Reddy's Lab**

Established in 1984, Dr.Reddy's Laboratories Ltd. (NYSE: RDY) is an integrated global pharmaceutical company, committed to providing affordable and innovative medicines for healthier lives.

##### **Key recent recognitions of Dr.Reddy's Lab**

- Award for Learning & Talent Initiative Excellence
- Award for Talent Management
- NHRD Inspire award for Learning & Development
- Best Employer in the Pharmaceutical industry
- Employer Branding Awards
- Thomson Reuters Innovation Award - India for Pharma Corporate

##### **RTI and LIC:**

##### **Suo moto disclosures under Section 4(1) (b) of RTI Act, 2005:**

**The following information and responses are available on the LIC's web site.**

- I. The particulars of its organization, functions and duties:
- II. The Powers and duties of its officers and employees:
- III. The procedure followed in the decision making process, including channels of Supervision and accountability.
- IV. The norms set by it for the discharge of its functions:
- V. The Rules, Regulations instructions, manuals and records held by it or under its Control or used by its employees for discharging its functions:
- VI. A statement of the categories of the documents held by it or under its control:
- VII. The particulars of any arrangement that exists for consultation with or representation by the members of the Public, in relation to the formulation of policy or implementation thereof:
- VIII. A Statement of the boards, councils committees and other bodies consisting of two or more persons constituted by it
- IX. A directory of its officers and employees.
- X. The monthly remuneration received by each of its officers and employees including the system of compensation as provided in its regulations:
- XI. The budget allocated to each of its agency indicating the particulars of all plans proposed expenditures and reports on disbursements made:

- XII. The manner of execution of subsidy programme, including the amounts allocated and the details of beneficiaries of such programme:
- XIII. The particulars of recipients of concessions, permits or authorizations granted by it:
- XIV. The details of the information available to or held by it reduced in an electronic form:
- XV. The particulars of facilities available to citizens for obtaining information including the working hours of library or reading room if maintained for public use.
- XVI. The names, designation and other particulars of the Public Information Officers:
- XVII. Such other Information as may be prescribed, and thereafter update this publication every year:

Further Disclosure: LIC related 28 different Acts and rules are mentioned under which the information is available. Quarter wise RTI annual reports are available online. Administrative structure of RTI in LIC includes Appellate Authority, CPIO, Alternative CPIO and CAPIOs at Central Office, Zonal Office and Divisional Office. RTI STATISTICS SINCE INCEPTION OF RTI ACT, 2005 is also available. It includes:

- No. of applications
- Appeals
- Hearing cases
- Show cause notice
- Compensation Cases
- Penalty Cases
- Total No. of Appellate Authority
- Total No. of CPIOs
- Total No. of CAPIO

#### **Corporate Governance and Dr. Reddy's Laboratories Ltd.**

At Dr. Reddy's, Board of Directors, management and employees are committed to upholding high standards of corporate governance and business ethics. They firmly believe that timely disclosures, transparent accounting policies, rigorous internal control systems and a strong and independent Board go a long way in preserving shareholder trust. The Securities and Exchange Board of India (SEBI) through *Clause 49* of the listing agreement with the stock exchange regulates corporate governance for listed companies. Dr Reddy's is in full compliance with Clause 49. It is also in full compliance with the applicable corporate governance standards of the New York Stock Exchange (NYSE). The compliance report of Dr Reddy's on corporate governance can be found in Annual Report, under 'Management Discussion and Analysis' and 'Additional Shareholder Information'. Dr. Reddy's has robust internal systems and processes in place for the smooth conduct of businesses. Internal control systems are regularly checked by both external and internal auditors, who have access to all records and information about the company. The Board and the management review the findings and recommendations of the auditors and take corrective actions wherever necessary. It has appointed BSR & Co. and KPMG as independent auditors for financials under Indian GAAP (Generally Accepted Accounting Principles) and the International Financial Reporting Standards (IFRS) respectively. It maintains a system of internal controls designed to provide reasonable assurance regarding the effectiveness and efficiency of operations, the adequacy of safeguards for assets, the reliability of financial controls, and compliance with applicable laws and regulations.

*Dr. Reddy's was the first manufacturing company in India, and one of the first in Asia, to be Sarbanes-Oxley certified on June 1 2006.*

**The charters of various board committees are available online.**

- Charter of the Audit Committee
- Charter of the Nomination, Governance & Compensation Committee
- Charter of the Risk Management Committee
- Charter of the Science, Technology and Operations Committee

- Charter of the Shareholders' Grievance Committee  
Code of Business Conduct and Ethics at Dr.Reddy's Lab:

As a value-based, socially responsible organization, Dr Reddy's is bound to the highest ethical standards in operations and behavior. It has adopted a Code of Business Conduct and Ethics (COBE) which applies to every employee, regardless of level or position, and lays down the principles that guide the conduct. The Code and an Ombudsperson Procedure have been articulated in order to provide information and resources to help employees make informed business decisions and to act on them with integrity. The primary source of information is corporate website [www.drreddys.com](http://www.drreddys.com). All official news releases and presentations made to institutional investors and analysts are posted on the website.

Quarterly and annual results are published in widely circulated national newspapers and local dailies. These updates are also released internationally through media and wires.

In addition, it maintains other electronic platforms through which interfacing with customers, suppliers, field and non-field employees is done.

**The way forward:** For *Capacity building in Public sector*, compulsory RTI training must be given to PIOs by Public authorities and *awareness* must be created in general public. Proactive disclosure is a must. In today's turbulent business climate, a corporate body must have *Code of Conduct* and must help all stakeholders practice *good governance*. HR departments in both the sectors must be change-prone and adaption-prone.

**Conclusion:** 'Adherence to Good Governance' is an integral part of the transparent philosophy of LIC and Dr.Reddy's. The driving forces behind institutionalizing the practices of good governance are various proactive measures, initiatives and guidance by the Government. The practice of operational transparency, information sharing, accountability and ensuring dialogue with all the stakeholders in addition to formulation of value-based policies and practices at all levels makes the organisation to imbibe good governance. Besides expediting disposal of Vigilance cases, emphasis must be laid on Preventive Vigilance through dissemination of information on areas susceptible to vigilance. The researcher recognizes that it would not be correct to generalize on the basis of data collected from the two organisations viz. LIC and Dr. Reddy's Lab. It is hoped that researchers and practitioners would pick up threads and do further research on the subject, for good governance has a long way to go. Both the stories of LIC and Dr.Reddy's governance show how they are experimenting, correcting, implementing CG , RTI and Good governance practices that will project transparency.

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