

Address by: Mr. Yaseen Anwar, Governor, State Bank of Pakistan
Chief Guest, Celebrating, “The Success of Executive MBA of 2012”
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Dr Ishrat, Distinguished guests, esteemed faculty and graduates of this wonderful institution,
good afternoon.

Before I inundate your minds with my sermon, allow me to firstly, thank you for inviting me here, and secondly, to congratulate you all! IBA is arguably the finest business school in the country and you should be both honored and proud to have completed your education from here. It’s a remarkable achievement indeed!

You are now going to get back into your careers, hopefully with a lot more knowledge, and presumably with a lot more passion. Your education has given you the means to lead, and the means to change. And I’m confident that you will change the way business is done in Pakistan. I’m even more confident that you will succeed in your respective fields.

And I’m not here to tell you how successful you will be. I think you already know that. You have the experience and you have the knowledge. It’s only a matter of staying true to your ambitions. I’d like to touch upon something just as important. What’s unfortunate, is that this issue has tended to remain on the fringes in most business institutions, and yet this issue

is very much a part and parcel of what you will face in your careers – the intangibles, if you want.

I'm talking about the issue of corporate governance, and ethics. They are separate entities, but remain closely intertwined. Let's talk about them individually for now though, and let's start off with corporate governance.

Corporate governance is essentially a system by which businesses are directed and controlled. That system includes the distribution of rights and responsibilities amongst different participants in the corporation, which includes the members of the board, managers, shareholders and other stakeholders. It also spells out the rules and procedures to be followed when making decisions. In this way, the system of corporate governance sets the groundwork for the company's structure, and eventual success.

A robust system of corporate governance allows a company to address the concern of all stakeholders within the organization, while remaining nimble enough to capitalize on market opportunities and to address external threats. A weak system of corporate governance is a disaster waiting to happen. If the system is not strong enough, there will always be incentives for corruption, unethical behavior and decisions which may represent the interests of one stakeholder, at the expense of everyone else.

I don't need to recite examples about instances where systems of corporate governance have fallen apart. Parts of the global financial crisis can be almost entirely attributed to the failure of these internal systems of checks and control. Managers in key financial institutions acted only to further their own short-term interests, with absolute disregard for the implications it had for their organization and society in general. The public resentment against Wall Street bankers is a case in point here.

If you have to take anything away from tonight, just remember this: as managers in *any* organization, you will *always* have a fiduciary responsibility towards the betterment of your organization, your client, *and* the society you live in. Systems of corporate governance are designed to ensure that you do not neglect this duty under any circumstances. But ultimately, the power to take decisions that affect all these stakeholders around you, will reside with you. And you *must* exercise this power responsibly.

That's where the question of your own ethical code will come in. If you find that you're asking yourself a question that begins with "should I...", you know you're facing a question of ethical concern. And those questions are incredibly, tough to answer. To make it worse, sometimes there really is no right answer to such questions.

In fact, at times, you may be faced with a senior manager or a supervisor who is trying to coax or perhaps coerce you into doing something that is *not* in line with your own personal

ethos. What would you do in times like these? You will be lucky if you find yourself in a corporation that has a strong sense of its own code of ethics, and a strong corporate governance structure. If you are in such an organization, you will know who to go to, how to report this and the procedures that follow. And you will emerge with a clean conscience, and a fulfilled sense of responsibility.

But there's a problem if you're NOT in such an organization. What if you find that your company's executives are completely out of sync with what's going on in the organization: they simply do not know what their employees are up to. What if they *do* know and have turned a blind eye towards it? Or worse yet, what if they're actively condoning such practices? That's when you should either leave the organization, or, if you can, try to instill a strict corporate code of ethics and governance. If you can do the latter, I would count you as nothing short of a revolutionary.

**Leadership for organizational change: 2010 SBP realignment i.e. institutional building.*

I hope I've been able to highlight how systems of corporate governance and ethical conduct are closely intertwined. They must also continuously evolve to meet the ever-changing landscape of the business world. This also means that it cannot simply be a bundle of papers that collects dust in the boardroom. They must be continually assessed and re-assessed, to make sure that the corporation is addressing the rights of the stakeholders it serves.

There's another important point I would like to raise here. And that has to do with the distinction between the legal and ethical aspects of corporate governance. Although the legal aspect is important, it does not address the underlying issue of establishing certain values, which will dictate the actions of the entity. Counting on legal frameworks to address ethical issues is a very reactive approach. It counts on a system of punishment as being a deterrent to undesirable behavior, but it only comes into play once something improper has already occurred. It may punish the perpetrator, but it usually cannot compensate for the loss to other stakeholders, and it can absolutely never compensate for the loss in the organization's goodwill. It also promotes a very unhealthy mentality of trying to circumvent the law when taking unethical decisions. Most accounting scandals start off with managers trying to find legal loopholes to exploit – sadly, they don't just stop there and consciously deceive the very people they should serve.

Therefore, as future executives, you should focus on establishing a system that actively promotes ethical decision making – one that can act as a deterrent to unethical, illegal and harmful practices within the institution. Remember, as future executives, you will have a fiduciary duty towards shareholders, employees, clients and society as a whole. More often than not, their interests will not be aligned and you will need to make extremely tough choices. And you will need to establish a code of conduct that clearly specifies what the organization should do in any such situation.

I would certainly be remiss in not pointing out that the world today is passing through a turbulent phase that requires a realignment of our leadership approach to managing businesses. Today's business leader is faced with a multitude of challenges, both on external and internal fronts. The complexities arising in the eco-system of any business may arise in the shape of macro economic imbalances that include sagging demand, inflation, volatility in financial markets, etc. While demanding situations on the internal front arise from personnel management, investment ambiguity that there are always complex matrices linking external challenges with internal ones and therefore, successful business leaders will never make internal business decisions in isolation. An unformed business leader is a leader without a vision and quite likely without any success.

Like any real life crisis, the present turmoil in the financial sector provides an opportunity to learn from the financial world's mistakes and overzealousness. This gives us the opportunity to look back and see what went wrong and structure our own financial houses so that this does not happen to us, or so severely affect the world again. In this regard I feel the most significant lesson that we have learnt from recent events is the importance of fundamentals in risk management. For instance there is a basic rule since inception of banks which says 'do not put all your eggs in one basket'. Had this simple rule been followed, many institutions could have avoided huge losses.

The challenges posed by the Global Financial Crisis have impacted leaders of all major businesses. Elevating corporate governance should not be confined to banks, but commercial concerns must also do the same. We all know the pace of globalization has accelerated, resulting in increased domestic and global economic integration. Today we cannot just shrug off failures within a particular sector or sometimes even a single entity if it has global linkages. Gone are the days when a financial or political crisis in one country could be contained to that country; now there are several contagion effects at different levels. That is why emphasis on good corporate governance regimes cannot be underscored more as it creates an attractive investment climate necessary to maintain investors' confidence, resulting in positive impact on the share price and creating possibilities for raising low cost Capital. It is imperative that we develop and implement good governance practices in order to provide impetus to economic growth.

Given Globalization and the crisis we all face, let me highlight the traits of effective leadership that are universally applicable and that I have cited in earlier talks. Leaders must be VISIONARY to see the future trends, anticipate institutional bottlenecks, remain competitive and be able to ADAPT RAPIDLY to changes. They should be CONTINUOUS LEARNERS, a necessity for enhancing leadership skills. Leaders need also to take into account their CORPORATE SOCIAL RESPONSIBILITY so that profit seeking is balanced against the objective of SOCIAL SERVICE and well being of society. Leadership success requires strong CONVICTION and BELIEF. Yet having HUMILITY and recognizing the

need to REINVENT and inspire their organization to adapt to new challenges remain an integral part of successful leaders. This is vital if businesses want to remain at the forefront of new innovations, critical for LONG TERM COMPETITIVENESS. All these and more comprise the necessary characteristics for dynamic leaders that push the frontiers of excellence. Such corporate leaders fuel the drive towards long-term growth and stability.

I think I've delivered quite a sermon here, but I hope I've gotten my message across. I'd like to wrap up on a more upbeat note though. You should realize why I delivered such a sermon in the first place. It's because I... in fact all of us here, recognize that you are the leaders of tomorrow. There is absolutely no doubt about that. And you will have to face such dilemmas in the future. I hope that when you do, you may recall a particular gentleman that spoke to you at your graduation ceremony and you may find some wisdom from his words.

But meanwhile, to the graduates of IBA's Executive MBA program, I'd like to present another challenge as you step into the world of business. I challenge you to change the way business is done here. I challenge you to create an organization that can survive, and indeed thrive in the challenging business environment we face today. I challenge you to create the organization that will become the face of Pakistan abroad. And I challenge you to do all this while remaining true to your own values, your own personal ethos, and while remaining

servants to the people of this nation so that you may be able to take better, well-informed and principled decisions.

This renowned institution has given you the knowledge that you will need to analyze any problem and frame solutions for it. Your time spent here has undoubtedly sharpened your leadership skills. And you have emerged from this experience as fine leaders, ready to take on the challenges that this environment may throw at you and ready to steer your corporations into uncharted waters.

Once again, I congratulate you on your achievement, and welcome you to the world of business. With the tailwinds of such an education at your back, I have absolutely no doubt that you will continue to excel in your chosen fields, and I could not be more excited to witness what changes you may bring to the corporate landscape in Pakistan. I sincerely hope that some part of my sermon on corporate governance and ethics will find a space in your memory, and that it may guide your decisions later.

For now, however, let's celebrate this achievement, and I wish you all the success in your professional lives!

Thank you once again for inviting me, and have a very good night!
