



India Needs To Look Beyond Trophy Directors, Says Arun Nanda In Conversation With S Sandilya And Amit Chandra

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The importance of board committees can never be emphasised enough, especially in tough times. A series of events in the Indian corporate world asks for a closer look at how board committees can make a greater impact on daily workings of the business. What is the correct composition of committees? Is there an appropriate way of looking at committee constitution without being too generic? How must boards mitigate risks? How can boards manage trust deficit?

S Sandilya, chairman, Eicher Group and Arun Nanda, executive director at Mahindra Group and independent director, discuss these issues with Amit Chandra, executive director at Bain Capital and non-executive director Tata Sons.

The panel discussion on ‘Board Committees: Making Them Count’ was held as part of an event hosted by former SEBI Chairman M Damodaran—Gatekeepers Of Governance. The main points discussed were:

Role of independent directors in flagging issues

How to make board committees count.

Importance of constitution of committees.

Importance of a transition plan for succession.

Financial disaster and management.

Addressing boards and risk management.



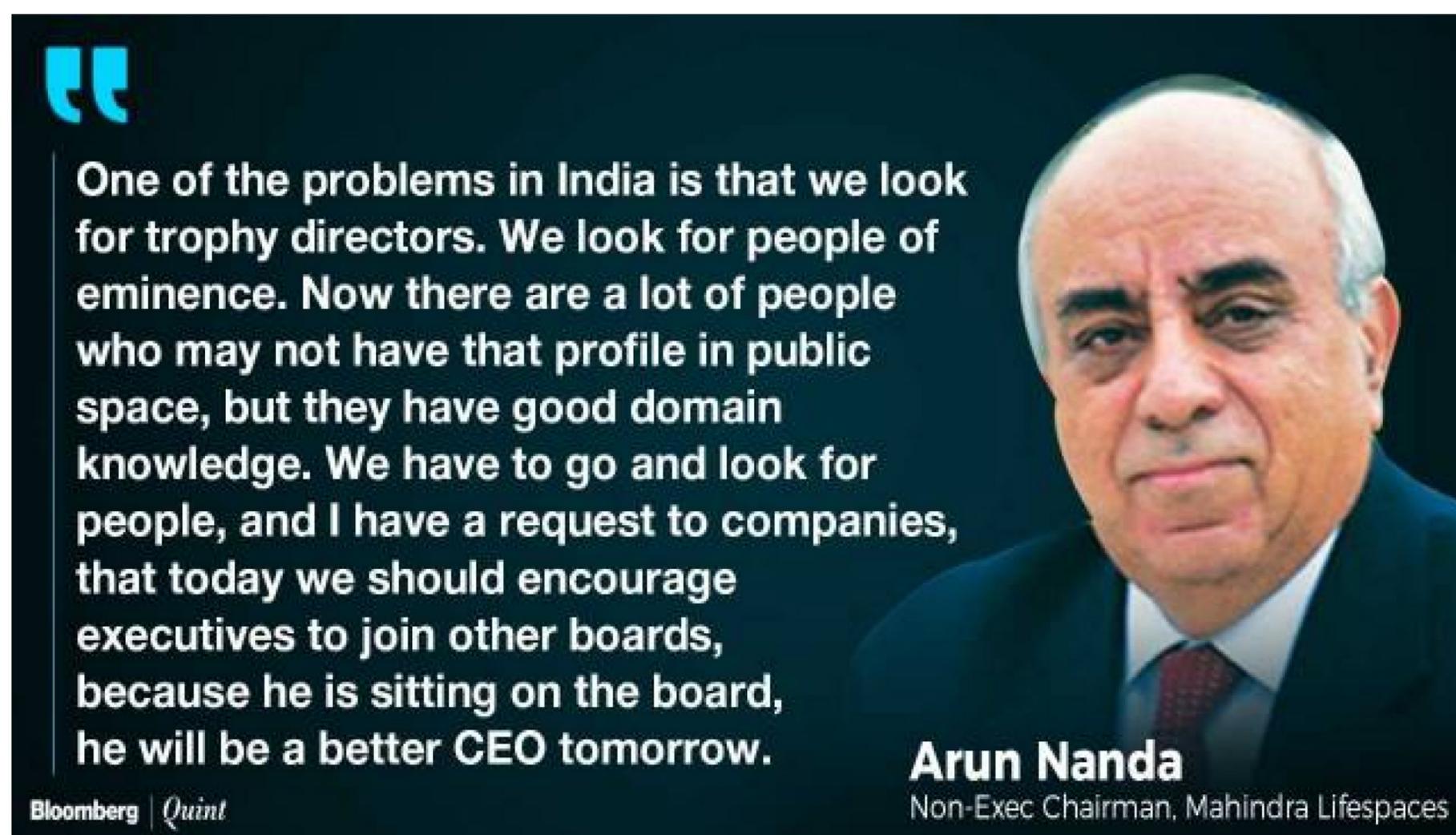
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The key role of boards is to be able to change leadership when they see things going wrong, or certainly be able to challenge leadership, before things really explode. We must ask ourselves how many boards actually do that. In most cases, boards derive their power from the CEO or the chairman/chairwoman. Because of that relationship, they don't really have a very constructive relationship where they can challenge each other.

Amit Chandra
MD, Bain Capital
Non-Executive Director, Tata Sons

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The panel discussed the importance of succession planning and the ability to recognise and nurture talent. How in this process the board can help improve performance, and the importance of independent directors and directors in ensuring that these objectives are met.



Read the full conversation here:

S Sandilya: What are your initial thoughts?

Arun Nanda: I have two problems. I am sandwiched between two very wise

people. Having served for boards for 30 years, the transition which we have seen from last 5-7 years is very different from what we saw. There was a time when it was ticking the board boxes. Currently, the responsibility of independent directors has gone to other extreme. You can't take independent directors before court even before their produce. We saw that in PSU banks that they took three people. We saw in real estate company that their personal assets where frozen. There is never a full or half-truth.

The first 2-3 things which comes to mind is constitution of committees. If you are dealing with risk or audit committee, it is important to have people to understand it. it is not only competence but availability of time. That is, it that we do manage to get eminent and well-meaning people on board. Although the Companies Act has brought down the numbers, we do find that people are starved for time. The composition of committee is very important wherein it has capabilities and experience of independent directors as everybody has different expertise and strength. And third is will they be able to devote time.

Those days when you had when you tick the boxes and went away are gone. One of the things which I learnt from Deepak Parekh is that he always uses to suggest that audit meeting should be on previous day because I don't want the pressure of board meetings starting at 2. He insisted that audit committee should be in afternoon of previous day. People have to understand that they not have only statutory responsibility but also a moral responsibility which comes with it. There are many shareholders who invest in companies based on composition of board and promoters.

Damodaran was saying that take the stakeholders committee. Normally, the way company put up stakeholder agenda is whether the compliance has been done, what were the complaints received, was their any whistleblower, etc. After I spoke to him, I realized that the stakeholder committee has far deeper responsibility than people normally think the stakeholder's committee is. I don't like independent directors talk

out of turn but at least they can ensure that communication of important matter. I have sat on board for 25 years and I have sat on board of stakeholders committee. But we looked at compliance point of view and we have seen that compliance vis-à-vis SEBI vis-à-vis grievance are done.

But one thought which came to mind is that if we see red flags, isn't it our responsibility as stakeholder that this information? These days getting them is not difficult. We just have to disclose it in website and given a declamation to SEBI and stakeholder committee can insist that this can be done.

Audit committees' task is most onerous of all committees. Most committee will place the audit committees, they will send you the agenda, but the accounts are placed at the audit committee itself. Deepak will not sit on an audit committee till the papers were sent a day before to him and he has a chance to see it and he wanted a chance to meet the CFO. Things have changed. If we want to be good independent directors, we want to proud of companies having good governance, then we have to think deeper about the responsibilities.

There is provision in SEBI guidelines about risk management. You take a case of biggest financial disaster. I want to know the risk management. Having so many subsidiaries and for net worth, if you take contingent liabilities out, was negative. They talk that NBFC have to have 1-10. But if you have contingent liability or claim over some government body which are not acknowledged as debt. Don't you think it is the responsibility of risk management or audit committee to go? Just looking at accounts and making sure the accounts are presented as per guidelines, as per the IFR, as per the Ind AS is not enough. We are now seeing that a company has so many subsidiaries. It has debt, even on books it was huge. What has the audit committee and risk management doing? Your responsibility is deeper that what is described in statute. It can be easily achieved if you pick up the right people and make sure you give them right information and enough time to go through it.

Amit Chandra: We live in troubled times and it has raised the bar to perform. I

don't think industry has learnt its tribes. Over last few years, we are not actually created for trust deficit by the way boards in general have performed. All of us who sat on board have realised that over the years being a board member means facing far greater degree of complexity. You see greater complexity in regulations, in environment which means needing much more debt, risk management skills. You see all other kinds of cultural complexities as companies have become more multicultural as they have gone to some different countries. Cyber security is big issue which people need to deal with. When you overlay all of things which the management team is facing amazing amount of complexity to deal with. We as board members were working with them need to think about what kind of job, they are doing to ensure that they are on right track.

The first thing is how are we equipped over selves to judge the things in working with and thinking are the equip to deal with some the complex issues including basic as risk management. That is important issue. It may be calling in just external experts who can help you access some of these things. Often as board members I have found myself very inadequate on dealing with some of these things. I have realized that it is important for board members to have the sense and identify what are the issues which are relevant to company and then for relevant committees to have the ability to rely on external experts and importantly to have budgets to rely on external experts who can come in and help board members access important issues.

You raise a company who was facing issue on asset liability mismatches. It is important to get an external perspective on something as basic as that because that could easily have been flagged on independent assessment which was done. It was something which was staring at face. One board which I sit on faces massive cyber security threats. We have the ability to call in a retired FBI director who did the assessment and told all board members that how we should be thinking about cyber security risk and how should we have been working with management committee and dealing with it. that could never have the ability for board members to think

about it. We will never become experts. Managements are better equipped to deal with these issues. We want to help management deal with these issues. If we want to be effective board members then our ability to rely on experts and be better informed become critical. For that we need to be equipped, have ability to spend money independently and be able to direct some resources.

The second issue is related. If you want to be able to do all this, the role of independent committees becomes identifying some of these issues as what are the issues in different companies that need addressing. You need to sit down with chairman or CEO or boards to identify and list critical issues and have some schedule of year which will get addressed in different meetings. If it is company that spans many continents, trade wars become risk. You suddenly discover trade war sending currencies, tariff barriers are impacting your PNL. It becomes important to rely on right experts to help understand that will it be 2-year issue or 20-year issue. If it is 2-year issue, how will you reorganize your supply chain or balance sheet. It is important to balance those 4-6 issues and calendar them. That becomes role of committee heads, chairman/CEO.

The third issue is it is important to think over substance over form. When I think about blow up over blow up, in all those cases if you had to do audit, people have checked the boxes in most of the cases. People have not thought of the issues with simple common sense. Substance over form is big issue that all of us should think more deeply about it.

All the management literature we read about the success of companies like what drives shareholder value, what is source of risk in companies, we realize that the big factor is essentially leisure. If that is correct the key role is to be able to change leadership when they see things going wrong or challenge leadership before things explode. We must ask how many boards do it. Most cases boards derive from CEO or chairman. In most cases, they don't have constructive relationship where they can challenge each other. When they do challenge each other, then it is one-way traffic

where very gently someone can ask a CEO or chairman to retire which happens rarely ahead of term. The other way around is exception when it doesn't create a lot of noise. That is biggest disconnect which exist. If it happens in private companies then why not in public companies. That is big issue which we have to ask. How do we make sure that boards have relationship which does not derives and power equation which exist when someone is appointing someone? But have the ability to engage each other constructively the dialogue which ensures the well-being of organization and shareholder.

Arun Nanda: I like to ask my friend who are either company secretary or chairs of committees that how many times we have questioned the agenda. That is the starting point. There are two class of people – MBA and accountants. I am one level lower, I am company secretary. You get mails from various departments to have board approvals for various things.

It is not for profit but very large private sponsored, one of the PM prime objective body. I found that sanctions where Rs 1100 crores and disbursals are Rs 130 crores. This numbers are floated on *Mann Ke Baat*. Normally, you will pass it, but the question is that relevance. We are 11 months in the year. If the sanction is Rs 1100 crores. To the credit of committee, they insisted that we want a board meeting with just to specifically discuss audit committee. Do we ask ourselves what should be agenda?

S Sandilya: Audit committees are most important committees. It becomes complicated for companies which are in financial sector or companies which have hundreds of subsidiaries. Is the audit committee focus on looking at inter corporate lending, what are the interest rate, are the real arms linked, what are the purpose of loan? With lot of this questions is they spent with 130 subsidiaries, it is not enough if you spend half a day. You need to go to depth and review of it and taking help is important.

One of the point of experts being brought into committee and opinions being taken.

The board members are not equipped with necessary knowledge and every aspect of it. On the one hand, they have knowledge but no skills. Especially in current regime where plethora of regimes comes, are they up to date of regulation? There is periodic training for independent directors where we get whatever number of people we want. Half a day is only on training and 4-5 topics are taken, whether it is cyber security or specialization. We have that session focused on it. So, we are aware to probe some of these issues in audit committee. In addition to getting experts, it is useful to have training program for exposing the board member with new knowledge and development which takes place.

Many people get confused with risk which are external and internal. Discussion takes place on real operational matters where the management is responsible for few things. It is your responsibility; how can you call it as risk? Risk is uncertain. You cannot eliminate risk. If you eliminate risk, you won't do business. Business is done with risk. Can we focus on what are the risk which we are likely to take place? What is the probability? What are the mitigating strategies so that we are prepared to do action? Board has to facilitate process of risk in discussion, apart from the legal responsibility the board should be able to discuss the risk. There are risk management committees in many companies. It is gracing the surface and not going into depth and understanding it. in today's context with changing technology, we find that risk that has reason can spoil image of company in few seconds. You have to have strategies for proper communication, medium and environment to ensure that the image of company is not lost though there can be issue of fraud or market risk like somebody there is risk in market and you wipe of major part. We need to see how to tackle this.

The company miss out is nomination remuneration company and board are responsible for succession planning. How many companies do succession plan? We have seen many companies that they have fired, and we don't know who the next person is. Even you don't have written plan, but do you have system or process. If there is large company, they keep rotating talent, they keep creating people to handle

business and different point of time. In one of the companies I have asked do you have succession planning. He was clear in his thinking. I was happy that you know what you are doing, your plans and know what to do in emergency. But I said keep the board inform and if something happens to you at least the board know what to do. It is important to have the exposure and discussion constantly. We have seen the areas where many people are failing. Companies have taken month and years for succession in public and private sector. It is not exclusive for private sector.

Does the board engage the committees to ask questions as what the company do? Talking about agenda fixation it is equally important that what the board do is just get the minutes of meeting. Each committee chair should be asked to brief the board of what transpired in committee. It has only summary. It may not have issues which are discussed, challenges being faced. The board has the responsibility that the committee chair has given some time depending on size of committee to brief the board on issues and challenges.

Board primary role is improving the performance of organization and while improving the performance ensure the governance. You have to spend time on performance. Using the committees to give feedback to board and look at what are the challenges and then the board deliberating on how to deliver the performance should be given importance and we should engage that committee in process.

S Sandilya: In real practice who decides the committee members? Do they have independence to decide the members?

Arun Nanda: We are going through a transition phase. 30 years ago, it was old boys club. You will see the same group of people in all. Recently we are seeing group of professional promoters. They behave like promoters, but they are professionals. There the problem is difficult because that you bring people you are comfortable with. Have we reached that stage? The answer is no. it is actually the job of nomination remuneration committee to do it. promoters don't have a sense of insecurity. They are still open. I find that others are more difficult to deal with. I am

not generalizing. They have to play a role that you can't expect CEO or chairman to know all.

NRC role does not end only with CEO. How many NRC meet the next level? If you are marketing driven company, your CMO is as important as CEO. Things have changes in last few years. The independent directors are seeing responsibility in far greater light rather than just elated by the invitation from board. That period has gone. Private equity is playing an important role because where they have stake and they will do full force to get those people. There are few companies who have reached that stage. But there is still a long distance to go. The board need to be more enlighten. The board and independent directors need to understand their roles and responsibilities. We live in very dynamic world.

S Sandilya: Is there any change that the committee playing the role of actually selecting the director of board?

Amit Chandra: I have the privilege serving on US board. Interesting thing about US companies is very few of them are promoter today. So, you see different kind of dynamic in US firms. If you compare and contrast that with Indian environment, there are some interesting learnings. The chairman/CEO left the task of board revamp to NRC. I am on NRC there. Broadly, lets agree on key principles which were over long period of time because you don't want to do all changes in short period of time. For long period, lets identify the key requirements for this board. So, we say that it is technology company, we want someone with AI, robotic process or automation capability, marketing, etc. And you say, this are capabilities which we are looking for. You define in addition to this what are other things which we are looking for. In cultural front, they say we want to have X percent of women or half board members as women. So, you say this are addition requirements. We took those directions to NRC and they drive the process. Them have a set of candidates, have the CEO with interviewing panel from NRC members. It is nice when you have a process driven by NRC efficient. We have revamped old period of time and landed

functional board with filling all the gaps that we wanted to fill.

In India, promoters try to control and want the person to listen what they want. It is driven by it as opposed to skills. You land up getting group thing. If we land up letting NRC follow the broad process of strategic requirements of company, you can have veto that this person is inimical to me. You have the right to turn down the person. Trust your NRC to throw up interesting names and let them guide processes. You can go further along in terms of board composition.

S Sandilya: It is not that only at board and NRC we want what kind of profile we want. Then we choose the potential candidate, the entire board interview him individually. Large board it is difficult. What I was happy for it was each person spent lot of time and did the ideas of change and that this person has more value. Not just compliant, but he will add value. For smaller groups, you can try it.

Arun Nanda: Amit made the important point of chairman and CEO. That is why you find less problems in Europe where the professional CEO is not the chairman of the board. In US, professional CEOs have become big honchos. They have become more difficult to deal with the promoters and shareholders.

We are sometime over critical of promoter. I served on board where we have Deepak Parekh, Dr Ganguly. Mr Vaghul. One company's name was mentioned. That agenda has to be discussed. It was in third board meeting. Twice the board sent it back. They said to do the homework and want to know the risk of the action. I feel that type of companies are fewer than the others. I was surprised with headline of a company which we thought that very well managed and had a huge growth.

S Sandilya: What is the challenge for Indian board to get quality independent directors who want to bring personal risk on table and contribute to company?

Amit Chandra: This is not important question for independent directors but also executives. In one of the round tables where we had one of the leading lights from the head hunting industry who was visiting India and she has made observation that

one of the trends seeing is that many executives in 40s after having made some of the money globally are deciding to retire. Part of it is because they are looking to say why do we need to deal with all the complexity and risk. It applies to independent directors too. Specially as an independent director, you are not in control of the situation. If you are executive you have greater degree of knowledge, control. As an independent director, you are sitting on back seat and someone else is driving the car. I don't have answer as you are often doing diligence on person. When there are case of fraud you can be taken for a ride. There are some cases where you could be asking the obvious questions as getting answers but for lot of others you have to be taken as a ride. We will see darkness before seeing things brighter. There will be fewer people to put their hand up and independent directors and quality people. You will see wrong people wanting to become independent directors of companies. Recently, we saw right names get of the board of a prominent entity. And when you saw the names, none of us could recognize the names of board members. Not to say that they are not reputed but they are not eminent. You will see more instance where only people who have less skin in game will gravitate towards a situation. It is unfortunate. You need more people to come to the pool. Part of this must go to regulators doorstep. It is not just regulator but judiciary's door step which is what kind of things they need to take like attaching people's personal assets and what kind of signs they are sending.

Arun Nanda: One of the problems in India is that we look for trophy directors. There are people who may not have profile in public space, but they have good domain knowledge. Typically, independent directors are retired senior people. We have to look for people. I have the request for companies that we should encourage to join other boards. We talk about training. He is sitting on board. He can be better CEO tomorrow. If you go to the Unilevers and tell some of the brand managers to come, he will say that my job condition don't permit me to do it.

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