

Age diversity in boards only theoretical, rues ex-SEBI chief

PALAK SHAH Mumbai | Updated on March 09, 2021



In 2019-20, no firm identified any missing competence at directors' level, finds a study by Damodaran-founded think-tank

Are the boards of India's top 50 listed companies lacking in young minds as independent directors? According to a corporate governance study by Excellence Enablers, a corporate governance think-tank founded by former SEBI chairman M Damodaran, just about 5 per cent or 14 of the 279 independent directors on the boards of top 50 listed companies that constitute Nifty index are under 50. And, many of them are set to cross 50 very soon, the study shows.

"This raises a question: is the diversity in the age of India's listed companies only theoretical?" Damodaran told BusinessLine over phone. "We should ask if old people sitting there are able to keep pace with new ideas and shareholder expectations? Given the pace and the nature of changes in the economy and in society, induction of younger persons on the boards will increase the relevance of boards," Damodaran said.

Diversity of skill sets

According to SEBI norms, listed companies should give a chart or a matrix setting out the skills/expertise/competence of the board of directors in their corporate governance report. Any relevant skillset or experience that is missing in a board could make its functioning sub-optimal. The diversity of skillset is, therefore, an important requirement.

The Excellence Enablers study found that "none of the companies during the financial year 2019-20 identified any missing competence at the board-level". "This could be indicative of a tick the box response at regulations," the study says.

In fact, a PSU company had stated in its response that since the government appoints all the directors, irrespective of the category, it would be for the government to decide on the existence of relevant competencies on the board.

Board meetings

On board meetings, it is mandated that each company must hold a minimum of four board meetings every year with a gap between the two sittings not exceeding 120 days.

“The number of board meetings held by some companies in FY 2018-19 and FY 2019-20 were 21 and 19. It might be worthwhile for boards that have held around 20 meetings a year to examine the productivity and the requirement for such meetings. If meetings are held far too often, they become routine engagements, with diminishing utility kicking in,” the study said.

While the number of meetings far exceeded the requirements, the attendance record of directors was dismal, the study found. “At least 18 to 26 directors, representing 3-4 per cent of the boards, had less than 50 per cent attendance. In the last four FYs, 3-5 per cent of the independent directors had less than 50 per cent attendance and 8-13 per cent had less than 75 per cent attendance. In FY 2019-20, 66 per cent of the independent directors had attended all the meets. Given the vastly increased responsibilities of independent directors, this would be an unsatisfactory position,” the study says.

Around 32 members of different audit companies of the boards studied had less than 75 per cent attendance during FY 2019-20. Of them, two members did not attend any meeting. Also, during FY 2019-20, 50 per cent of the companies conducted 7 or more audit committee meetings and only 22 per cent conducted the minimum stipulated number of 4 meetings.

The Shareholder Satisfaction Survey, which some companies conduct, enables them to identify areas for improvement, and to reinforce those aspects that seem to be meeting with the approval of the shareholders. Only 7 companies conducted such a survey in FY 2019-20 and only 5 out of them had conducted such surveys in preceding two years, the study shows.

“This is a first-of-its-kind survey or study on corporate governance involving composition of company boards and their evolution in response to SEBI’s 9 principles of sustainability. We could be 2020 ready but are we ready for 2030, the next decade,” asked Damodaran.