

A series of interfaces with the entire range of stakeholders of Corporate Governance, has given rise to a number of questions, issues, concerns and, happily, some suggestions and solutions. In each issue of this monthly newsletter, we will be getting two experts to articulate their thoughts on a specific topic. The fifteenth issue is now with you. Needless to add, we welcome your feedback.

Editor

## EXTRACTING VALUE FROM BOARDS



That many a Board adds little value, and is merely a decorative presence derived from statute and regulation, is a disquieting truth in the corporate arena. Since Boards cannot be wished away, it is necessary to extract value from them. How is this done? Arun Thiagarajan and V.K. Viswanathan give us some pointers.

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### Arun Thiagarajan

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A Board can be divided into three groups. The first are the representatives of the promoters/ dominant shareholders, including usually the chairman. The second comprises the management, i.e. the MD and executive directors. The third are the independent and non-executive directors. The interplay among these three groups is extremely important if the Board is to add value.

Large industry groups and multinationals have operation and strategy reviews outside the Board, and decisions are taken, which are then ratified by the Board as a formality. The resultant information asymmetry affects the ability of Independent Directors to adequately participate and to question Board proposals. The Chairman must ensure that sufficient briefing is given to the outside directors.

Board composition is very important. The members should represent a range of different backgrounds that could benefit the company. There must be at least one independent director with experience of the company's type of business. The Chairman must ensure that the views of directors are actively sought. When discussing important issues, the practice of having a "devil's advocate" is a good one.

The pressure of quarterly results, together with the increasing items on Corporate Governance, means that time is often in short supply. One good practice is to schedule six meetings, with two meetings to discuss the annual budget and long term strategy respectively.

Disruptive technologies and business models, and their impact on the future must be discussed. Agility and adaptiveness are keys in today's fast changing world. Ensuring management depth and succession planning are also important Board subjects. Finally the Board adds most value if it can influence the culture of the organisation to become an open, forward looking and ethical entity that can properly balance short term results with long term strategic thinking in the interest of all stakeholders.

Three "C's" are critical in extracting and enhancing value from Boards.

#### Composition of the Board:

It would be critical to first decide what kind of board is right for the company as this will provide strategic and effective framework. The Chairman's role in ensuring a good mix by way of rich experience, deep understanding of business, practical orientation and diversity, enabling a platform for free and open discussions including divergent viewpoints for arriving at a good and optimal decision will enhance value for the company.

The composition of the Committees is equally important. The committees should comprise specialists and experts in their fields and should also be truly empowered to deliver on their respective charters. Committees, being more involved and focused on specific business issues, should give their considered recommendations for the Board to deliberate and decide.

#### Commitment, Content and Constructive engagement:

Key issues, both strategic and operational, are to be continuously identified and addressed by the Board on an ongoing basis. The Board must strive to achieve a judicious balance between strategic and operational performance issues. This also keeps the balance between entrepreneurship and effective governance for long term value creation. Independent directors must devote adequate time and bring their external expertise and independent judgement to the Board's deliberations.

#### Compliance and governance:

Upholding high standards of ethics and integrity in all dealings is a key factor for long term success of a company. The company must practice zero tolerance for non-compliance in respect of ethical values, legality principles and conflicts of interest.

Successful Boards are cohesive, coordinated and constructive, and definitely not cozy clubs.

### READERSPEAK - Breathing Life into Stakeholders Relationship Committees

"Vikram Singh Mehta, Executive Chairman, Brookings India and former CEO of Shell India"

"This is an excellent piece."

Do let us know of any specific issues you would like to see addressed in subsequent issues.

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