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(AN M. DAMODARAN INITIATIVE)

Expert Expressions
Corporate Governance Demystified

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A BOARD MEMBER REMEMBERS

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What are some of the takeaways from a long innings on the Board of an iconic company? Read on.

It finally happened. After close to 12 years, my tenure as an Independent Director (ID) on the Board of one of India's largest companies came to an end on March 31, 2024. 5 days earlier, on the day of my last meeting as a Director on this Board, I took out some time (not during the meeting) to reflect on the years gone by, the richness of the experience, the lessons learnt, the lessons that ought to have been learnt but were not, and the interesting persons one met on the journey. And, not to forget, some aspects of Corporate Governance.

Boards vary from company to company. The quality of the Board is not determined by the numbers on its financial statements, or the domain in which the company exists. Much of what goes into the collective entity that is called the Board of Directors, is influenced by its members, the complexity of the businesses, the geographical spread in which the company operates, and several other variables. What often does not get adequate attention is the culture of the company, which serves as a differentiator between Boards and Boards.

The size of the Board is a good starting point. This company, on whose Board I was privileged to serve, had, not so long ago, 22 members on its Board. When it was mentioned to the then-Chairman that we could field 2 cricket teams of Directors, and would be lacking only in substitutes, he mentioned that this was a strong company, with strong persons, and will not need substitutes on account of illness or injury. Looking back at the years gone by, I believe that he was spot on. It took much more than illness or injury to keep persons in this company away from their workplaces, no matter what the inconvenience. The culture of being a part of a large diverse company, present across a wide spectrum of businesses and companies, was more than enough to motivate the average person to join, and to stay on. This was evidenced during the presentations that the officers one or two levels below the Board made at the quarterly accounts' meetings and the strategy meetings. It was a practice in the company that any new person appearing before the Board to make a presentation would have to introduce himself/ herself before taking the Directors through the presentation. What stood out for me and my colleagues on the Board was that almost every person started his/her introduction by saying that he/she joined as a junior engineer trainee, and was privileged to work for this great company. Some of the younger looking persons claimed to have worked for more than 30 years. It is not clear whether this was on account of their youthfulness, derived from being happy at the workplace, or whether the hair dye applied had the misleading effect of knocking off at least one decade of their age.

But we are digressing. Is a numerically large Board often dysfunctional? Does every ID get enough airtime to share his/her views? Is a two-tier Board the solution to -address the Board-level aspirations of the senior executives?

Many companies that are unsure of themselves give disproportionate importance and attention to the IDs, presumably because they do not wish to be challenged when they are on unsure grounds. Nothing of that kind existed in this company. While intelligent and constructive inputs from the IDs were accepted, and often acted upon, there was no patience with irrelevant conversation or crosstalk. The company saw the IDs as mature persons, able and willing to contribute to the discussions, but what remained unstated was that “no matter how experienced or intelligent you are, you will never measure up in terms of your understanding of this company, or the domains in which it operates”. This was positive professional pride, manifesting itself at every conceivable opportunity. The questions remains, from a Corporate Governance standpoint, whether more could have been got out of the IDs by engaging with them more often, and enabling information flow equally to all IDs to address the perception that some IDs, not all, knew what was happening. Information asymmetry among IDs is never desirable. In this company, the IDs created a Whatsapp group, which served as a clearing house for thoughts and ideas.

There were also some things that went on unnoticed, by the IDs. In one conversation, the then-Chairman of the Board was asked what the company did by way of succession planning at one or two levels below the Board. Succession planning was a touchy topic because in spite of his extraordinary knowledge and contribution to the growth of the company and its business, there was a feeling that he had stayed too long, and a banyan tree effect was kicking in. Perhaps anticipating this unstated thought, he called one of his many young Man-Fridays, and asked him to produce a paper containing details of succession planning. In all the years that I have been with companies, and interacted with the HR function, I did not get to see a paper so thoroughly prepared, anticipating every contingency, and reflecting a state of perpetual readiness, to fill any vacancy that would arise. What is more, even as he was explaining the various facets of succession planning, and the 7 levels of training programmes to equip persons for their role, he did not have to consult the paper that he had called for. Initially, it was felt that this was an individual trait of someone whose name in the public mind was synonymous with the company. In a short while it was seen that his successor had much the same skillset, and knew who ought to be moved where, at what point of time, to maximise the output of the company. The culture of the company had clearly permeated to various levels. And yet, the questions remained whether information on succession planning should have been shared with the NRC, and the Board, proactively, rather than when asked for. This also points to the need for NRCs to be more proactive.

Meticulous attention to detail, and a state of eternal preparedness, set apart this company from several others. In close to 12 years on the Board, I did not see more than one occasion where there was a mistake in the presentation, or in the written text circulated to the Board. Compliance with the procedural aspects of Board meetings was also at a high level, and anyone who, with a sense of bravado, questioned any procedural aspect, was quickly shown the Rule, and then his place.

Lunch was another interesting differentiator. While several courses were served, there was a sense of urgency in getting through with this agenda item, and moving to the boardroom to resume discussions. It was sometimes felt that the pace at which lunch was consumed, with small talk between small bites, was not what the doctor would have ordered for promoting proper digestion. Separately, should Boards that are under time pressure, not opt for working lunches served in the boardrooms? One positive outcome could be that while focussing on toplines and bottomlines, Directors do not do harm to their mid-lines.

Minutes writing was another area in which the company scored very high. Both the past and the present Company Secretaries produced near perfect minutes of meetings. In my recollection, it was only once or twice that there was some discussions in the manner in which the minutes had captured the relevant portions of discussions.

During my tenure on the Board, I was a member of the Audit Committee (AC), and of no other committee. This was presumably because I was asked to Chair 2 Independent Companies (ICs), which were responsible for two businesses. Membership of committees, however, was more or less evenly distributed between IDs. As a member of the AC, I felt early on that the agenda was bloated because of too much attention to transactional details, possibly losing out on issues of systemic importance on some occasions. Over the years, the correction has taken place, and mostly transactions, that are indicative of systemic issues, make their way to the AC agenda. At one point of time, the committee met more than 12 times during a FY. Over the years, it has come down to a more sane level of 6-7 meetings. One peculiar issue, which was corrected some years ago, was that the same statutory auditors had done statutory audit for 50 years on the trot. Now the prescriptive arrangements in the Companies Act, 2013 and the LODR Regulations have been absorbed, and are being practiced. This is also one of the few companies where the internal audit issues get adequate attention, and the cost auditor also is given enough time to present his report, and to engage with the members of the committee.

What I missed most was the opportunity of being provided training/ familiarisation, which some companies provide for IDs on an annual basis. Presumably, given the vast number of businesses and their complexity, as also the mature men and women that make their way to this Board, it was felt that the Directors would look after themselves when it came to familiarisation and training. No harm would be done if twice a year, an outside expert is invited to share some thoughts on the economy, the global situation, and the like.

There is one ritual that should not be lost sight of, especially when I have been through it recently. Every departing Director is spoken of fondly by the Chairperson, and then in addition to the usual memento, is given a box of sugar-free sweets. No amount of telling the past or the present leadership that no sweet is sugar-free, has made any impact on this very sweet gesture by the company.

When Directors depart, it is usual to say good things at their last meeting. Every such occasion reminds me of a former senior colleague of mine, on whose superannuation day, persons that were not well disposed to him, heaped encomiums on him. In his response he said that if he had known that such good things would be said on the day he left, he would have left much earlier. In this company, the thoughts expressed were genuine, and not over the top.

All good things must come to an end. But while it lasted, one felt privileged to be on the Board of a company that made, and continues to make, the things which make India proud.