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(AN M. DAMODARAN INITIATIVE)

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# LETTER FROM A SHAREHOLDER

*In this, the 100th issue of our newsletter, we are bringing centre-stage, the most important stakeholder, who rarely figures on boardroom conversations. We hope her/ his concerns resonate with you. Thank you for reading and writing back.*

Dear Chairperson,

At the outset, please accept my greetings of the Annual General Meeting (AGM) season. I am aware that this is a time when you, and others who are similarly placed, grapple with issues of painting the best possible picture of the company's performance, and warding off inconvenient questions from pesky shareholders. Some years ago, an enlightened economist mentioned to me that in the opinion of Milton Friedman, the famous economist of his time, the primacy of shareholders was paramount, and it was obligatory in their interest for the companies to focus on maximising profits to the exclusion of everything else. Years later, some others, broadly grouped as stakeholders, got together to claim their place in the Sun. I, for one, am quite willing to live with the reality that but for other stakeholders, my company might not make profits, and therefore, co-existing with them, and hoping that there is no clash of interests, is perhaps the best way forward.

Reasonably well-informed persons tell me that a good Board of Directors is critical for the sustainable performance of any corporate entity. I have no quarrel with that premise. However, I often ask myself whether the persons who comprise the Board in my company are the best persons for the job, and whether their participation in Board meetings is helpful for the company to chart its growth and progress. All of them, I imagine, must have been inducted in the Board for the right reasons. It is entirely possible that at the time when they were brought on board, they were the great white hopes for the company. My concern is whether they have remained at the same level of engagement, commitment and performance over the many years that they have been in the boardroom.

A related question sometimes troubles me. I am aware that the Companies Act, 2013 prescribes that each term of a Director shall not exceed 5 years. Does that make it necessary, or is it a matter of administrative convenience, that every one of them is given a 5 year term, with no possibility of a mid-course assessment whether the person selected is able to pull his or her weight?

I am sure that having regard to the interests of the company, you have helped to select Directors with maturity and experience, and the ability and willingness to contribute effectively to the decision-making process. Since none of us is God, it is possible that some mistakes have been made by inducting persons who were not the most appropriate. Is there a way that you can address this before their 5 year term runs out, and you come to the shareholders saying that these are great persons who need to be given another term.

Staying with the subject of Boards, I am curious to know how the process of Board evaluation, and the evaluation of Directors takes place. Is it a robust exercise, meant to separate the grain from the chaff, or is it a box-ticking exercise, that leaves everyone happy? I notice that given the very large number of Directors in the corporate ecosystem, there are very few, if any, instances of a Director being found sub-optimal, and persuaded to leave the Board, in pursuit of better pastures. Absent this phenomenon, would I be right in assuming that evaluation is an exercise, the results of which are known in advance, and are even more predictable than the conclusions of a run of the mill movie?

I notice from the Annual Report that the company has meticulously captured, if that is the word, the skillsets of all the Directors. There is hardly any box that has remained unticked. Am I then to assume that these Directors, with multiple skills, are able to collectively pool their wisdom and their efforts to get my company to perform as well as it can?

Let me touch on another sore point. You perhaps know that some of the Directors are unhappy with the nature and extent of their compensation. Is that translating to underperformance? Is there also a mismatch between the compensation of promoter Directors and the Independent Directors (IDs) on the Board? I am reminded of the statement of the first Prime Minister of Singapore that if you give peanuts, you will get monkeys.

The question that often arises in my mind is whether my company is giving me the best returns that it can possibly give. I know that the company has a Dividend Distribution Policy. It indicates the approximate level for determining the payout to the shareholders. It is being increasingly noticed that retention is given more importance than payout, ostensibly because the company needs to preserve money, either for investments, or for a rainy day. Is this not a subversion of the fundamental principle that what is surplus should first be applied to the interests of shareholders? I also notice that there is sufficient cash sitting on the books of my company. I am confident that this is real cash, and not imaginary cash, as in the case of a celebrated IT company, which came to grief a few decades ago. My question is however whether all that cash is required to be retained in the expectation that it would come in handy for an acquisition or expansion, while shareholders wait with bated breath for bigger handouts than they have been receiving. This is not an easy question to answer, but I do hope that you will not, following a celebrated Central Bank Governor, say that this is out of syllabus, and the next questions must be asked.

Not being in the boardroom, or for that matter, being at a considerable distance therefrom, I often wonder what actually transpires in the boardroom. I understand that there are a number of agenda items, each more complex than the others, requiring to be decided. Is it possible to do justice to them, in the matter of two or three hours? Are there persons who contribute disproportionately, while others remain the strong silent types. Even Regulators are struggling to figure out the nature and extent of contribution by Board members.

This brings me to a related question that is not without difficulty. Why are all our Board members being compensated equally? Surely, there are some that perform better and some that underperform. Can the relative performance not be recognised and rewarded by higher compensation in the form of higher commissions?

I am told that the Nomination and Remuneration Committee (NRC) and the Board determine the compensation of the senior executives, and that this is done with regard to their performance in respect of predetermined KRAs. How is it that I then find that what is decided at the beginning of the year is invariably paid out at the end of the year, without factoring in performance? Is this an empty exercise that we, as shareholders, must watch with seeming unconcern from the sidelines? Considering that some initiatives will take time to play out, and will demonstrate that what has been done is not in the best interests of the company, can we have a provision for clawback, so that payments, not in sync with the outcomes of questionable initiatives, are at least partly taken back by the company?

The world and the economy are undergoing rapid changes. It is therefore necessary for Board members to periodically reorient themselves, and to measure up to the emerging challenges and the requirements of the future. Is this being done through well thought-out training programmes? I regret that the Annual Report does not shed much light on this aspect.

I am aware that the Board of Directors operates through different committees, each with its assigned functions and responsibilities. Is there information asymmetry which results from the same Directors being members of the same committees throughout an extended 10 year period? Would there be merit in looking at some form of rotation, having regard to their aptitude and their experience? I also find that some Directors are in either no committee or in one committee, while others are in almost all of the Board committees. Considering that these are all experienced persons, who are in a position to contribute, should there not be a more even distribution of the committee workload among the Board members?

There have been reports in the media pointing to high rates of attrition, as well as exits by senior executives. I notice that attempts are being made to explain away attrition by stating that it is an industry phenomena, or pointing to the homing instincts induced by Covid. Sometimes high rates of attrition, especially at the junior levels, are attributed to the non-stickiness of the younger generation, as distinct from those of my generation, who were “lifers” in a single company. No matter what the primary cause is, I am sure that you have put in place measures to address the problem of attrition. Is ours a company that people enjoy working for? Is ours a company where in addition to the basics of security and safety, the feel-good factor exists in the workplace? Is this an area that, in your view, our company needs to work on?

As for senior level exits, do we have a well thought-out robust succession planning to ensure that no critical position remains vacant? I hope that we are not resorting, like many others, to multiple hatting when a vacancy occurs, and then approaching the filling up of that vacancy in a leisurely fashion? If there is a talent crunch, as is being increasingly mentioned, will it not be worth our while to identify not one, but two possible successors for each position, without remaining content that whoever is presently with us, will serve till the date of his/her superannuation?

I am aware that we have a Risk Management Committee (RMC) in place in our company. I would like to be satisfied that the committee is meeting as often as is required, to address the diverse risks that manifest themselves from time to time. Does the RMC have adequate expertise to scan the risk environment, and put in place mitigation measures? Is our company open to inviting external experts, and benefiting from their wisdom, rather than subscribing to the view that the entirety of requisite expertise resides within the company? Some companies have, perhaps for good reasons, focused significantly on cyber security. I hope that is not leading to other risks, which are equally damaging, being ignored.

During the Covid years, for entirely understandable reasons, all companies including ours, had virtual AGMs. Now that Covid, at least in its most virulent form, is behind us, can we look forward to physical meetings or hybrid meetings? I need hardly mention that in the days of yore, AGMs were like annual pilgrimages, where shareholders would religiously turn up, not just to ask questions, but also to interact with the Directors on the sidelines of the meetings. Can ours be among the companies that, without further delay, get back to physical AGMs, with provision being made for virtual participation, for persons who are unable to attend? Virtual AGMs were the fallback option a few years ago. Will we get back to restoring primacy to physical meetings? While on the subject of AGMs, can you persuade all your Directors to attend the AGM?

I have received a copy of the Annual Report on the eve of our forthcoming AGM. It is more voluminous than it has been in the past. There is considerable data packed into the report, leaving the average shareholder like me wondering where to look for information that is relevant to me. I am aware that some of the chapters owe their existence to regulatory prescriptions, and cannot be wished away. Will it be possible to attempt, as a handful of companies have done already, a summary, bringing out in bullet form, the highlights of the report that are most meaningful for the ordinary shareholders?

Mr Chairperson, I have many more questions. However, I recognise that if I raise all of them, I will be keeping you occupied with responding to them, instead of devoting your time to ensuring better performance by my company.

While signing off, may I hope that the issues raised by me will receive your attention.

Yours faithfully,
A retail shareholder