M. Damodaran
Chairperson, Excellence Enablers
Former Chairman, SEBI, UTI, IDBI

THE ROAD TO BE TRAVELLED

The easiest thing to do is to continue doing what has been done before. Boards should get out of their comfort zones and challenge themselves to move on the road less travelled

With the commencement of a new financial year, and with a new SEBI Chairperson in place, the context is appropriate for Boards to look at what they should be doing in the months and years ahead. To get companies away from the normal practice of incrementalism, and be on the road less travelled, Excellence Enablers organised a roundtable with participants of diverse experience and expertise, to come up with action points, milestones and methodology. What follows is an attempt to focus on some of the more significant suggestions.

While it is well understood that appropriate composition of the Board is the starting point of getting the company to move in the right direction, it is rarely that the specifics of this objective get addressed. What is often overlooked is the need to factor in what the company presently does, and what it wants to do in the future. Given contextual clarity, it will become easier to decide on the kind of persons who ought to be inducted on the Board. While some of them will have significant domain knowledge, and some others might be helpful in domain neutral suggestions for improved performance, the lowest common denominator should be that Directors should act independently, and be unafraid to express their views in a constructive manner. In this exercise, Nomination and Remuneration Committees (NRCs) should be actively engaged in identifying the gaps to be filled in Board composition, and creating the appropriate universe from which the right persons could be selected. NRCs should not be seen as mindlessly endorsing the views of the management on the selection of Directors.

It is often heard that the availability of good Directors is limited. Nothing could be further from the truth. If the net is spread wide, instead of focussing on a narrow catchment area as in the past, potentially good Directors could be identified, and brought on board. The possibility of engaging external specialist firms should not be brushed aside. Over time, Boards have become manifestations of gerontocracy. This should be consciously addressed by selecting younger persons, who might have knowledge, that is more contextually relevant to the company.

Suboptimal performance by Boards is often a function of absence of role clarity. Directors, especially those who have in the recent past held executive positions, are more inclined to get into management territory, forgetting that execution and operations are not the functions of the Board. The Board should act as a sounding board for management, and not get involved in the nitty gritty of individual transactions.

The related point to be remembered is that Boards do not run companies. Running companies is the responsibility of management. The Board’s function is to ensure that the managements run the companies well. Unfortunately, even Regulators, on occasion, task Boards with functions that belong entirely to management, and in the process, reduce the time available to the Board to discharge its basic functions of superintendence, direction and control.

One problem that has been mentioned in the recent past is the inadequate preparedness of senior management persons moving to Board level positions. It is erroneously believed that such persons, having been in the company for several years, hit the ground running when they get onto Boards. The transformation in roles will require handholding to ensure that the newly appointed Directors are schooled in the responsibilities and functions at the Board level.

Many Boards consistently underperform because of their extraordinary focus on the past, without setting apart enough time for discussions on the future. Spending disproportionate time on looking at the performance of the previous quarter or the previous year, makes Board meetings resemble the meetings of pathology departments, since the quarter or the year has gone by, and apart from throwing up some lessons, will have little contribution to what the company should be doing in the months and years ahead.

Related to this is the question of setting a value-adding agenda. It should not be left entirely to the management comprising the Company Secretary and the CEO, with an occasional input from the Chair of the Board, to design the agenda for the forthcoming meeting. Good Boards have recognised that the agenda must be set “with the Board”, and not “for the Board”. Boards must also focus on the timely flow of complete and correct information, so that decisions are not taken based on ill-informed discussions arising from inadequate information.

There are some specific areas that Boards have not focussed on adequately. To begin with, there is rarely, if ever, a review of the existing business model, and the changes that might be required for the company to remain relevant and ahead of competition. If the business model is taken as cast in stone, change, if any, would at best be incremental, and will not be fundamental.

Succession planning is often spoken about, but adequate time is not invested in this exercise by the Board or the NRC. It cannot be that only when a vacancy arises, even if it is a vacancy that should have been anticipated, the exercise commences by looking for suitable candidates within or outside the company. Successors should be identified and kept in a state of readiness to seamlessly move to the higher assignment that a vacancy gives rise to.

Diversity Equity and Inclusion (DEI) again is more spoken of than actually discussed or actioned. Much the same is the treatment accorded to ESG, with lack of clarity on which committee(s) of the Board should handle which aspects of ESG. Climate change is yet another item that gets bandied about in conversations, but rarely makes it to the Board agenda as a specific item. With floods, cyclones, earthquakes and the like affecting the physical infrastructure and the conduct of business of companies, inadequate time is being allotted in boardroom discussions to preventive measures, and the business continuity plans, that ought to kick in when a major event is about to take place. Much the same could be said about cyber security and the absence of AI and technology applications in the Board agenda.

In a competitive environment, it is necessary for companies to innovate on a continuing basis, lest they get overtaken by obsolescence or irrelevance. While there is token acknowledgement for the need for innovation as well as R&D, the overriding approach seems to be to treat these as expenditure items, and not as investments.

No company is an island unto itself. It is necessary to keep track of, and even anticipate, the changes in the global economy, so that when such changes take place, the company is not caught napping.

The spread and reach of social media, with its negative connotations, is a matter that does not seem to have attracted the attention of the Board or any of the Board committees. While social media policies might exist, they do not capture the entirety of the phenomenon. Resultantly, with negative posts in social media going viral, companies do not seem to be ready to respond in time, and to undertake damage control. Boards need to appreciate that the ecosystem has a disproportionate presence of social media, and it can be ignored only at the expense of the company.

Strategy is yet another matter which gets talked about, but not adequately addressed by Boards. While some companies follow the practice of having an offsite meeting for strategy, the agenda for such meetings often comprises several other items, which reduces the time available for meaningful discussions on strategy. Strategy being co-created by the management and the Board, it is essential that it becomes the central agenda, if not the only agenda item, for meetings that are described as strategy meetings. Such meetings, in addition to helping to craft and refine strategy, also enable the Board members to get a visibility of senior management persons, to assess their capability and competence for being moved to positions of higher responsibilities. This would also encapsulate the mentoring role that Board Directors have, even if such a role is not articulated in laws and regulations.

Given the responsibilities of Directors, no justice can be done to their role if they only attend the meetings of the Board and its committees. It is of paramount importance for Directors to interact with management persons between meeting dates, so that they not only get updated on a continuing basis, but are also able to help with advice and assistance where necessary.

The need for right-contenting the Board has been discussed. What should not be lost sight of is that Board members should be willing to serve on different Board committees, especially because the committees constitute the place where in-depth discussions take place. To address the possibility of asymmetry of information between committee members and Directors who are not on some committees, there should be a policy of inviting such Directors to be present during the committee meetings, so that they get to hear firsthand the issues that are being discussed. While the non-members might get some insights from the briefings by the committee Chairs, it does not adequately bridge the information gap between committee members, and persons who are not members of the committees.

In some companies, though the practice is mercifully not widespread, decisions of the committees are taken as final, with the Board either not considering them, or routinely endorsing them, without application of mind. This is inconsistent with the position that Board committees, no matter how well they are constituted, and irrespective of the time that they invest, are not a replacement of or a substitute for the Board. It should be possible for the Boards to revisit the recommendations and/or decisions of the committees, and make such modifications as the Board in its collective wisdom might consider desirable.

One forum which has not been taken advantage of, presumably because of the context and the cavalier treatment given by Schedule IV, is the separate meeting of Independent Directors (IDs). One meeting every year, limited to undertaking the process of Board evaluation, is a hopeless underutilisation of the forum. Progressive companies have put in place a practice where before every Board meeting, the IDs discuss matters on the agenda, as well as other matters that are relevant. This meeting functions as a clearing house of ideas. Giving it stepmotherly treatment is equivalent to scoring a self-goal.

Boards have also reluctantly recognised that a robust external Board evaluation exercise is far more value-adding than the routine box ticking exercise that in-house Board evaluation exercises have descended to. To rule out external evaluation on the ground that it has a cost element, is to be extremely shortsighted, and to shut the door on a value-adding exercise. Experience has shown that where external evaluation is undertaken, the areas for improvement are more easily identified, and acted upon, unlike in the case of internal evaluation, where the exercise becomes one of legitimising present practices.

Companies, especially Public Sector Undertakings, often have the problem of the owner/promoter not being able to distinguish between ownership and management. If a Board is constituted with the right kind of members, it stands to reason that the Board should be trusted to function in a manner consistent with the interest of all shareholders. Continuous interference, and disproportionate influence being exerted on the functioning of the Board, will disincentivise and demotivate the Board, and reduce Board members to rubberstamps.

The tasks are clear and nearly everyone talks about them. What remains is the ability and the willingness to walk the talk.