ACROSS THE BOARD

Boards of Directors face teething challenges in today's difficult regulatory and economic environment. A panel of top-notch Directors takes on the subject with gusto at a roundtable discussion in Mumbai

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Let us begin with a few interesting observations.

This one is from R. Gopalakrishnan, former executive director of Tata Sons, and director on many boards: "I have sat on boards (meetings) where the following statement is made: 'You know, I can't discuss this with you because this is highly confidential, but…'. And 10 days later, there's something in the newspaper and you feel embarrassed. This is absolutely appalling."

From M.K. Sharma, former chairman of ICICI Bank: "A large pool of independent directors comes from senior bureaucrats, CEOs, and regulators. Their normal behaviour is mandating and directing, and they don't give up that habit when they become independent directors."

Sunil Alagh, former honcho of Britannia and now the MD of SKA Advisors: "Right now, all independent directors are scared about governance. To hell with strategy and all that; we can all go to jail if you're an independent director."

Arundhati Bhattacharya, former chairman of SBI, India's largest bank: "In PSUs, it's a fact that the majority shareholder (government of India) exerts far more influence than they should. And it is not done through the board."

Clearly, all is not well with Boards of Directors, the power-source of corporate India. A series of corporate misadventures felling once-mighty individuals, companies, and boards; a nervous and hyperactive government and regulator reeling out a series of policy and regulatory changes; and a demanding economic, business and competitive environment, are making boards jittery.

A group discussion of — coincidentally — 12 board members of different companies produced a two-hour, hotly debated and sometimes-stormy session, on the challenges facing Indian boards. The outcome was fascinating. The innards lay bare.

Panellists of the Amrop-ET Best Boards roundtable discussion in Mumbai

Governance versus strategy was a key issue. Sanjaya Mariwala, Managing Director, OmniActive, pointed out that with the law going overboard on governance, boards are spending more time on it than on business strategy. "How much check-boxing do we have to do? Directors need to start understanding the business better and make a difference in strategy," he said. "It's not necessary that all businesses have promoters who are best at strategy." Of course, participating in strategy would have to be done carefully, without stepping into operational decision making. As another promoter, Dilip Piramal, Chairman & MD of VIP Industries pointed out, the function of the board is not executive. "Function of the board is advisory and supervisory to some extent," he said. Independent director Deepak Satwalekar, among others, agreed: "Strategy is the prerogative of the management." The board's role is to test, assess, and question that strategy, and give suggestions.

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INDIA'S BEST BOARDS

Given the current debt crisis in India Inc., the role of the board in risk management was deeply debated. "Role of the board is to define the risk appetite of the organisation. We will not exceed debt-equity ratio of a given percentage," said M.K. Sharma. "To go beyond that, promoter has to either dilute his stake, or raise more money from the market, or bring in another co-promoter willing to invest." Piramal's counterpoint was that 30 years ago, the situation was worse because the capital market was not so developed, and boards had no option but to go in for debt capital.

Sunil Alagh felt that for adequate risk management, it is important to appoint the right people to head the various committees. "And then you report to the Board," he said. Arjun Dhawan, group CEO of infrastructure company HCC and a promoter, said that we are in a growth economy, and the price of failure is very high. And a promoter who drives the board can decide to take that risk, but without compromising on governance. Deepak Satwalekar said that most board members can't spell out their risk appetite in coherent terms. "Are you happy to put 20 per cent of your net worth, or profits for the year, at risk?" He also pointed to cybersecurity as a "frightening" risk, which companies and boards have not taken seriously yet.

Milind Sarwate, Founder & CEO, Increate Value Advisors, lamented that in some areas, boards have just resorted to ticking the right boxes. "The risk management policy also gets converted into a tick-box," he said. "In most boards, risk comes up perhaps once a year, and that too presented by somebody in a perfunctory, compliance-oriented manner." Gopalakrishnan added that to assess risk, boards must think about (a) Have you considered all the risks (b) Are you betting the farm? Entrepreneurs are instinctively optimistic, but "if something goes wrong and there is huge leverage, some groups may be able to pay for it, others may not", he pointed out.

The aspect of independent directors was also discussed at length. Rama Bijapurkar, an independent director for long and known for her straight talk and non-compromising nature, said the independence of independent directors is very low. "It's also because a lot of us are appointed by management," she said. "It's a question of whether you believe in the obligation to dissent or not." To the point of how far she would push the CEO or promoter if her point is not being addressed: "If I feel the issue deserves to be pushed, I would push harder and get kicked off boards as well."

Arundhati Bhattacharya felt that independent directors need to critically view what they are shown by the management. At the same time, they must tread with care. "The way you come across to the management has to be very carefully thought through and presented, so they take your questions as an input rather than as a challenge," she said.

Sadly, though, independent directors are seen more as an imposition by law than a necessary value-add by many companies. As Gopalakrishnan said: "There is no statistical basis for what I'm saying; it's more anecdotal. But if you ask people, do you really want independent directors? You get to the truth."

The roundtable was held as part of The Economic Times' and Amrop's latest initiative to identify and award the most effective boards of India, in partnership with process partner IiAS.

Process Partner

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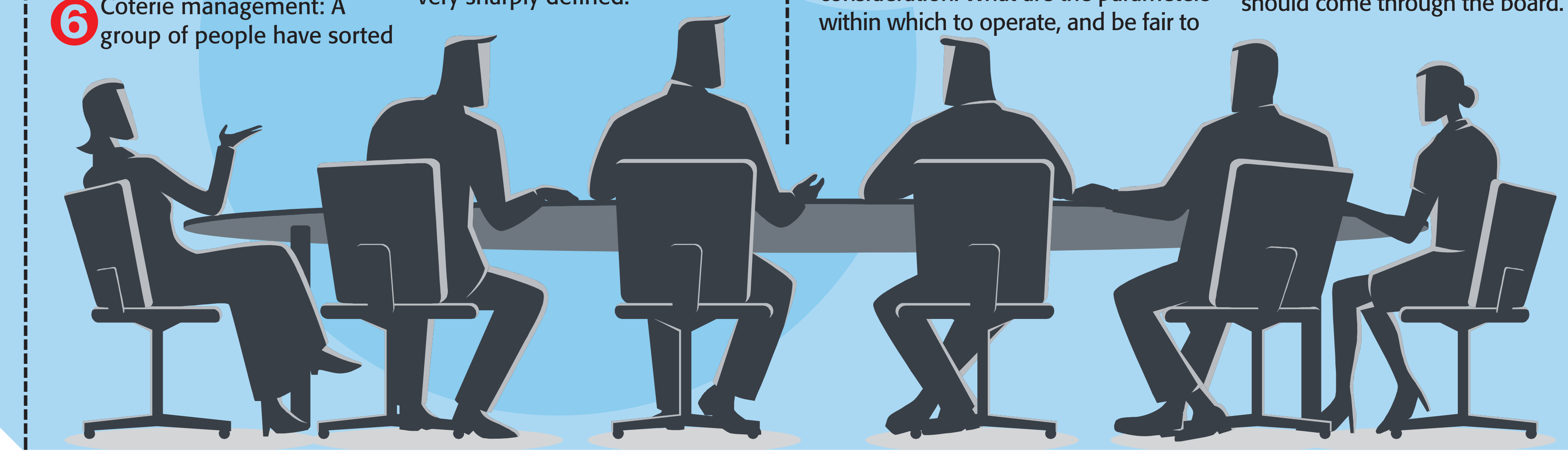
10 KEY CHALLENGES BOARDS FACE

1. Unwillingness to identify, manage and appreciate risk parameters that a company is facing.
2. Managing expectations of promoters who appoint you on the Board, and of shareholders, who need you on the Board.
3. Quality of independent directors is a big challenge. The net pool in the market is not growing. Lack of openness in going after non-traditional directors.
4. Directors get to see what the management is showing you. Questioning is not taken in the right spirit.
5. True independence of independent directors - so they can diligently perform their duties - is lacking.
6. Coterie management: A group of people have sorted it out, and they want everybody else to say yes.
7. Iceberg management: Corporate governance has about 10% that you can see; but the real work of the Board is in the 90% below the iceberg that you cannot see - the behavioural part.
8. Managing regulatory risks. Level and volume of compliances make it difficult to build quality Boards.
9. Managing Board deliberations in a focused manner. Board's attention gets dissipated over several things. How do you get the best out of your Board?
10. Function of the board is not executive. In many boards, deliberations get into executive. Function of the board must be very sharply defined.

10 KEY STEPS BOARDS MUST TAKE

1. Board is a custodian of culture, reputation and values of the organisation. What has worked to build the organisation should be improved upon.
2. Two meetings of independent directors are essential, where nobody from the company sits. They discuss replacements, succession, strategy, law, and then they convey their feelings to the Board.
3. Formal board assessment of each independent director is generally ignored but is important. Each board member should get a report on what other members of the board think of how he's doing.
4. Need a mix of people on the board. Apart from consultants, there must be people who have run companies.
5. Risk appetite must be defined independent of a proposal under consideration. What are the parameters within which to operate, and be fair to stakeholders?
6. When you miss out on a certain opportunity when you felt the risk was too high, go back a few years later and reassess that decision.
7. Need to marshal board agenda, set the calendar, decide what the board will do and not do. In their absence, board meetings will be all over the place. Board meetings need focus.
8. Directors need to start understanding the business better and make a difference as far as strategy is concerned.
9. Boards should test, assess, question, and possibly give directions based on experience, to strategy created by management. And then, keep track.
10. PSUs have a clear mandate on social sector service. How they do it commercially is up to them. But the mandate from the majority shareholder should come through the board.



BOARD WISDOM

"If there cannot be a democracy of the board, where everybody at the table is looking at matters at the same level, then you start getting psychological complications"

—R. GOPALAKRISHNAN
Former Director, Tata Sons

"In MNC boards, there is far more direct questioning of the C-suite employees than in Indian companies. We are very gentle and less prone to be blunt about what we feel are C-suite failures"

—ARUNDHATI BHATTACHARYA
Former Chairman, SBI

"As Boards and business management evolve in the country, I would like my Directors to challenge the Board more often. I seek Directors who will challenge the Board"

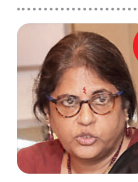
—DILIP PIRAMAL
Chairman & MD, VIP Industries

"Governance, strategy, etc. are nice words. But the board assessment and independent directors' meeting are most critical. If you don't have these two for independent directors, we are not going in the right direction"

—SUNIL ALAGH, *MD, SKA Advisors*

"The responsibility of the board is in setting the risk appetite. But if you go to most board members and ask them to spell out their risk appetite, there will be blank stares"

—DEEPAK SATWALEKAR
Independent Director



"As a board member, you can't be cooking strategy and also evaluating it. That role clarity is needed. Do you really want independent directors who are truly independent; who will exercise judgement, good or bad?"

—RAMA BIJAPURKAR
Independent Management Consultant

"Non-executive members of a board are like migratory birds — they come once every three months. So, how do you get the best value out of them that the management has to think about?"

—MILIND SARWATE
Founder & CEO, Increate Value Advisors LLP

"The law is going overboard on the governance aspect. How much time do we have to spend on governance issues, versus critical strategic decisions for the business? And is the board focused on those issues?"

—SANJAYA MARIWALA
Managing Director, OmniActive

"The ambition and aspirations of promoters far exceed financial resources available, and they are typically averse to dilution of their equity stake. This malady has caused enormous pain in the Indian economic system"

—M.K. SHARMA
Former Chairman, ICICI Bank

"Many companies are in crisis today. It's important to have a Board that appreciates the problems in the evolving environment of regulation, and be able to suggest solutions that would require the company to take hard decisions"

—ARJUN DHAWAN
Group CEO, Hindustan Construction Company

"Governance is the first role of the board. And that's where we find that the dominant shareholders are not very interested. They clearly want more strategy"

—PREETY KUMAR
Managing Partner, Amrop India

"The role of the board is to save the promoter from himself, and this is by defining the risk parameters. If the board is not able to do that, then you will see a lot of issues with companies"

—AMIT TANDON, *MD, IiAS*