

## **My experiments as an independent director**

- by Sisir Kumar Appikarla

### Story telling ...

My journey as an Independent Director on the board of a PSU, providing consulting services for setting up steel plants and related sub units within...

The PSU, I am referring also does a few turnkey jobs in the steel sector. Since its inception, it continued as an engineering consulting company more into steel or metal consulting.

Towards end of 2016, when I joined the board as an independent director, the company was financially in RED. It could partially recover from a deep RED few years earlier.

As is the norm, the board meetings used to take place once in a quarter. Normally the meetings used to start at 10.30 / 11 AM with the audit committee meeting, consuming the initial hour or so, followed by the board meeting for a couple of hours.

Invariably the meetings used to be closed by the lunch hour, because of the hectic schedule of the Joint secretaries and the Additional Secretaries who were also the important members of the board. These directors were from the ministry, to which the PSU belonged.

It took me 2 / 3 meetings to get acclimatized to the new environment and also to the other board members; to understand the business of the company and its financial statements etc. Being CA by profession, a qualified insolvency professional as well, I had a strong yearning to contribute towards the turnaround of the company, as an independent director in the board.

I devised a plan in my mind to give shape to my positive intent. I assessed the constraints; identified the resources and mentally fixed a strategy to achieve my goal.

### The constraints I faced ...

1. I was the newest member in the board

2. The only interaction time available was in the form of audit committee meetings or board meetings for just a couple of hours that too once in a quarter
3. The board had members from executive management of the company—experts in engineering and nominee directors from the Government of India (Joint Secretary or an additional secretary). In view of their position, experience and the PSU being under Steel Ministry, their views in every single agenda of the board meeting mattered the most. I was the only finance professional amongst a highly technical board and a rank outsider to the systems in a PSU.

I was like a newlywed BAHU (daughter in law) in a big KHANDAN (Family) ... no doubt she (a newlywed BAHU) is an important member but her opinion on issues are sought generally in the last.

4. The board agenda used to be circulated hardly a couple of days prior to the meeting in two thick booklets, one for audit committee meeting and the other for the board meeting, each used 200 / 300 pages with hardly any preparation time or even for reading the booklets fully.
5. The data circulated to audit committee meeting used to be one or two quarters old.
6. As an independent director, I was expected to stay away from the day-to-day management of the company.

#### Resources I had ...

Being the audit committee chairman, the manpower resources readily available to me for the task was the two-member internal audit team of the company.

#### Strategy I devised ...

As first step, I chose to win the confidence of the co-board members by clearly conveying that I am neither a mere watchdog nor a bloodhound ...

I was truly interested in the welfare of the organization.

Gradually I won the trust, confidence and respect of the rest of the board members. Simultaneously I gave the comfort to the functional directors that, I was working on a possible turnaround plan rather than merely

pointing a finger at people for the past losses. Once the coast was clear and the atmosphere was that of anticipation rather than hostile, I started working on my plan systematically.

I mentally devised a methodology that had following components.

1. Understanding the loss from financial statements, then from business point of view and lastly look for a possible solution.
2. Analyzing the root cause of loss from past data and then working on systemic improvement to avoid repetition of past mistakes
3. Devising a few strategies for optimal resource utilization
4. Way forward

### Understanding the loss ...

The core strength of the company was in the consulting business in Steel sector. Because of the cyclic nature of the industry, the company's own financial position was directly linked to the peaks and ebbs of steel sector.

With most of the steel majors reeling under financial stress, projects had come to a standstill or differed indefinitely; resulting dwindling revenues of the company, causing the financial loss.

Careful study of the financial statements revealed, being a contracting company it had to follow certain accounting standards.

- Revenue recorded on percentage completion method or milestone achievement method.
- Only on obtaining acceptance / approval of achieved milestone by the client, revenue was recognized.

Similarly, if a bill remained outstanding for more than 3 years, then provision had to be made against the said bill. Thus, it had a dual impact on the books

- when clients were not certifying completion of a job because of any reason for a long period, revenue couldn't be recognized
- at the same time provision had to be made for long outstanding receivables

### Possible solutions I suggested ...

Balance sheet management is an important function for any such loss-making consulting companies.

The immediate action was pursue constantly with the clients to settle the bills outstanding for more than 3 years, in top priority compared to the current running bills, if there was a budgetary constraint at the client's end.

In this strategy, any recovery made from the bills outstanding for more than 3 years would directly add to P& L A/C, as the amount already written off. Its dual advantages were improvement in both (1) cash flow and (2) bottom line.

On strategy for the-then ongoing works, they were to engage client in continuous dialogue to get the work completion certificates/ mile-stones achieved even if the client was unable to pay immediately. The certificate would help to book revenues and indirectly helping bottom line improvement. Secondly, for many on site jobs carried out at the request of the clients were not part of the bid; I proposed to raise additional bills for the additional jobs with the consent of the client.

By adopting this strategy, the company could turn the balance sheet GREEN from RED during 2018-19.

### Analyzing the past data ...

The company was getting works from other PSUs through bidding process with revenue of the company directly proportional to the number of successful bids it got and executed. Hence, I wished to do a data analysis on the status of the bids won and lost in the previous 5 years.

The only and the best resource available to me for collecting the past data for analysis, was a very small internal audit team. I directly interacted with them and asked them to analyze the bids the company participated in the past 5 years.

A few important findings were ...

1. On number of occasions, company lost bids by a very thin margin

2. On quite a few occasions, company won bids wherein the next closest bid was around 10% higher in amount
3. In 90% cases where company won the bids, it ended up making a loss ultimately
4. There was hardly any addition of new clients in the last few years

The first three observations indicated unscientific or inefficient bidding process followed. On presenting the results to the board, the working directors internally discussed the issue in the executive committee meeting and completely altered the data collection process and bidding approval process. This brought about a significant systemic improvement.

The fourth observation indicated that the marketing team was not very effective in identifying newer opportunities or their source of information was not robust. The working management agreed to examine this aspect more closely.

#### Devising a few strategies for optimal resource utilization ...

- Being a consulting company, 60% of fixed expenses were on manpower.

For the company to have a positive bottom line, each employee had not only to earn his / her salary but also had to contribute something more, over and above the other remaining overheads. It required a huge motivation for the existing manpower to achieve a turnaround for the company.

On further manpower analysis, noted 50% of the rank of DGMs i.e mid management level.

Since the company was in doldrums for a considerable period, as an austerity measure the promotion for the DGMs were withheld for 3 to 4 years. This had adversely affected the morale of the efficient ones. The promotion policy was reintroduced after the above analysis as an incentive.

- The company always hired management trainees only from premier engineering institutions like IIT, NIT etc. Manpower was well qualified and were among the best in the country. However, the management approach for the operation of the company had been TOP-DOWN i.e only the top management was involved in every kind of managerial decision making

and the juniors (who were also are from top institutions) were given only the tasks to perform.

In this approach, the juniors often failed to get the broad picture and hardly any responsibility on them relating to company performance.

Noticing this, I started to bat for a BOTTOM UP approach, in which junior level officers were to be treated as project managers and they had to get their projects, independently market and manage their expenses through manpower planning, overhead planning for the job and make a positive contribution. This resulted a sense of ownership of the company at the early stage of the employee joining the company. It also induced a strong patriotic feeling and a sense of belonging ... a great asset for the company, moving forward.

Secondly, the project leaders shall have an opportunity to show and develop entrepreneurial skills, which would go a long way in contributing to the growth of the company. The top management would be playing the role of an administrator and mentor would be involved in setting long-term goals of the company. By this method, one could create future business leaders. Importantly, many employees would show ownership by being part of the project team and there would be a healthy competition amongst the best in the company, cumulatively leading to innovation in management. This helps to get the best from the young officers while the veterans of the organization can contribute their best for the company through their knowledge and rich experience resulting in a huge growth for the company.

- While analyzing the manpower cost of the company, I realized a heavy mid management cost coupled with overheads, leading to a heavy per hour manpower cost comparatively, a possible reason of losing bids to competitors. As a solution, I proposed, to depute resources from the company as desired by the client at a pre agreed cost for an agreed period. The company could place its brilliant engineers with both private sector as well as public sector clients, thereby not only costs could be recovered but also new business opportunities could be explored in the market. The company adopted the strategy partially.

It hired well qualified fresh engineers on a contractual basis at a low cost and placed them with clients on a higher per man-hour cost and made a decent margin.

- The internal audit team like any other PSU had few members with a professional background in Finance. Their audit program for the entire financial year used to be fixed at the beginning of the year by the CMD. I proposed to the board that the audit team should not only be working as a watchdog but should be able to provide valuable inputs to the board to plan or alter their business strategies. Add audit function with the responsibility of Management audit and every audit committee meeting should have a management audit component. The audit team should have an experienced engineer as well, to understand the technicalities of any project audited. Most importantly, plan succession and rotation of the audit team as a management policy.
- The company had liquid funds of nearly INR 600 Cash FDR yielding just around 6%. I proposed a fund management policy to the board on the reasoning that even if we were able to earn 2% more through smarter investments it would help in bottom line. After lots of discussions and after the approval from the ministry, a fund management policy was instituted just prior to my retirement as an independent director.
- The company did not have a risk management policy. Given the battered financial position of the company, the company was facing the existential risk ... the imminent danger of disinvestment. After much persuasion, I could convince the working directors to draft a Risk Policy.
- Though it is normally not expected, I took the initiative to arrange a business meeting between the working board members of the company and the highest authority in the Indian NAVY, through my personal contacts, to explore the possibility of any new business. Similarly, I arranged a board level meeting with a well-known business conglomerate in the private sector in the infrastructure space. The private sector board was rather pleased with the effort of a PSU approaching them for a business tie up.

### Way forward ...

There should be a revenue mix from other sectors and the company should explore the possibility of entering into newer niche areas through market study and suitable manpower planning. The planning should be such that when the core sector hits a low tide, the revenues from other sectors should keep the company afloat.

After consistent persuasion, the whole-time directors on the board prepared a vision document and presented it to the board towards tail end of my directorship.

### Closing remarks ...

I served in the board for 4 years. It was a great honor and when I hung my boots, I carried a sense of satisfaction that I gave my best to bring a turnaround in the company. I shall always cherish the experience.

The “New Bahu” finally got the “TIJORI KI CHABI” ... however, the privilege was never misused, rather it was considered a huge responsibility and there was no wielding of any power.

The results that “Khandaan” got is for everyone to see. JAI HIND