The Wheels of Corporate Governance and evolving roles of Boards and Independent Directors

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(Transcript based on the talk by the author in Power Talk Series-21, organized by the Independent Director's Databank, IICA, on 29th April, 2022)

Corporate Governance has been evolving over the years in India and has associated costs which one might question whether it is worth to bear such cost. But it's notable that the companies who follow corporate governance standards have better market valuation, attract less costly finance options, bags favourable deal in case of M&A etc than those don't follow.

In today's time of crisis, it is imperative for the Companies for having risk management strategy to handle risks posed by unpredictable events like COVID-19 pandemic, geopolitical events and developments, natural calamities, bankruptcy and failure of large corporates having significant influence on market. Companies without a defined policy based structure in place might find it difficult to get out of such challenging circumstances.

It is important to note that the key pillars of Corporate Governance are Reporting, Risk Management, Compliance and Internal Controls. Corporate Governance helps companies in better risk management, protecting legal & ethical reputation given the compliance with evolving Rules & Regulations. In order to avoid the downfall in corporate or brand reputation, it is important to ensure stakeholder confidence as it is an integral part of business strategy while focusing on various non-financial parameters and reporting thereof including ESG, climate risk, cyber risks including others.

Quantification of Risk factors is also important aspects as various forms of risk might have different impact for different set of companies. For example for technological companies, competition risk is not coming from the company next to it in market but from new age technology firms having potential to disrupt the market. Risk could be of geopolitical nature like import/export ban in respect of a certain countries. Technology and innovation should be given due weightage in risk management strategy because it is vital for long term survival. Crisis management like strikes, supply-chain disruption and succession planning, Cyber security is some other risk which board of a company should take care of.

Lack of oversight, technology transformation, governance, assessment of competition may put a company out of business completely as we have seen in case of Kodak, Wells Fargo, Lehman Brothers, wirecard, Nokia etc. Dominant positions of CEOs and one man's rule might cause downfall of a company as no one can do everything right and board members should deal with such situation carefully as the board has great responsibility towards its organization. In furtherance to this, duties of directors should involve to act as a mentor, coach and guide to a company and help them improve corporate credibility and accountability, to act in good faith and in the best interests of the company, its employees, the shareholders, the community and for the protection of environment, ensuring good corporate conduct and governance practices, focus on stewardship and oversight, Being an informed Director to be a useful director, exercise duties with due and reasonable care, skill and diligence and independent judgment, avoiding conflicts of interest and related party transactions need to be looked at skeptically.

Board committees i.e. Audit, Nomination and Remuneration, Stakeholders Relationship, CSR, and Risk Management committees are also important part of Corporate Governance. Board evaluation has also become an important aspect.

Board's Risk Oversight Objectives could be understand with the risk appetite implicit in the company's business strategy, risk & commensurate reward, management system for risks, risk awareness and general understanding of importance of risk management.

Cost of compliances should not result in non-compliance, as inherent risks of non-compliance spread across multiple segments including employee welfare, loss of market share, consumer confidence, investor confidence, penalties & fines, environmental hazards etc.