

Seven experimental suggestions for Independent Directors

- Nirmalendu Mohanta

Summary:

The author, having worked as a whole time director (WTD) in a well-known PSUs a couple of years ago and later serving as an Independent director in another PSU, developed a dual perspective to look challenges of Independent Directors (ID) wholesomely. Based on practical experiences in two Boards, the author identified seven tips that Independent Directors can evaluate and may consider adopting in their own context.

A board consists of experienced professionals with expertise in divergent disciplines. However, it is perceived some IDs remain passive throughout the board process and offer their comments during meetings very rarely. This is also true for some whole time directors (WTD) who make a comment only when something relating to their domain of specialization like Finance, Marketing or Operation taken up in board proceedings. A progressive Board on the other hand, requires proactive participation by all the members of the Board with vibrant synergy to provide a competitive edge. Only such a Board can reap the full benefits of diversity of knowledge and experience of the collective.

Taking dual perspectives of WTD and an ID on challenges for Independent Directors, summarized following experimental suggestions:

1. Discuss proposals in the Board earlier at the level of one of its committees.
2. Standard MIS on plan fulfillments may be a regular agenda in Board meetings to meet the information requirement of the Directors.
3. One annual Board meeting should be exclusively dedicated to 'strategy' and long term issues.
4. '*For Information*' agenda points are as important as '*For Approval*' issues.
5. ID needs to strike a delicate balance on the conflicting outlook of a teammate and an auditor.
6. Time to start a daily habit of Self-development

7. Empathize with whole time Directors for their successful on-boarding

We shall address these areas with little more details...

1. Discuss proposals in the Board earlier at the level of one of its committees.

In India, as per companies act and other statutes, there are five statutory sub-committees of the Board. These are Audit Committee, Nomination & Remuneration committee, Stakeholder Relationship Committee, Risk Management Committee and CSR committee. All these committees are compliance oriented. These apart, many progressive organizations have formed additional committees over and above the statutory ones, depending on their organizational processes. There exist committees like Contracts Committee, HR Committee, Projects Committee and Committee on Securities etc. in different organizations. The number of non- statutory committees may depend upon the size and complexity of process in an organization.

One advantage of having Board Committee is that it provides an opportunity for deep diving into all details of the proposal. The full Board with all its members as a whole are very busy and expected not to deliberate each issue in details. Hence, one way out can be making it a thumb rule that every issue comes to the board only after it has passed through any one of the board committees. This way at the first level, the issues are discussed thread bare in detail and on the other; the Board can deliberate on the key points along with for a wholesome view. Therefore, the Board should try to create a few additional committees to cover all the issues. Since strategy is a key responsibility, The Board in all organization can consider a 'Strategy' committee, an umbrella term to cover many policy and objective issues.

2. Standard MIS as a regular agenda in Board meetings can contribute effectively members' information requirement.

The flow of information between the management and the independent directors is an important consideration for effective working of a progressive board. Sufficient, timely and regular flow of information on substantive issues enables all members of the board to be in the same page on vital issues. Availability of such information removes perception gaps and enables the independent directors to make a fair assessment of the position of the organization.

One concrete way of achieving this, in context of board process; is to decide to have a mandatory and wholesome MIS as a part of the board meeting agenda in 'for information' category. The report can carry four to five leading and lagging metrics against different management functions like O&M, finance, Marketing, Projects, Corporate Governance and HR. The organization in addition can carry the various MOU targets and periodic actual as a part of this MIS.

3. One annual Board meeting should be exclusively dedicated to strategy and long term issues

As a usual global trend, Boards spend most of their time on plethora of urgent issues with some important issues postponed. Need for spending more time and energy on 'strategy' issues can hardly be understated. It is very evident in our day-to-day corporate life. We always have so many problems that there is hardly any time left to think forward or long term. In the process, the strategic issues become the victim.

One of the key responsibilities of the Board is to keep in place right strategies for long-term health of the company. These strategic issues include review of alignment of vision, mission, objectives, values and goal. They also include all the functional strategies, policies and action plans, say in the areas of Production, Marketing, Finance, project management and HR. Progressive Boards always manage adequate time for these strategic deliberations adopting various methods. One can think of having a dedicated Board meeting exclusively on company strategy during a year. Alternatively, we can adopt a practice of one strategic issue in rotation to discuss in each of the Board meeting along with ten other regular agenda issues taken up. I noted a system in some good organizations preparing a monthly calendar of strategic issues meant for discussion in different Board meetings during the year.

4. 'For Information' agenda points are as important as 'For Approval' issues

A dark reality of meetings in the Boardroom is that mostly a large pile of agenda issues taken up within a limited period. These issues are generally of three categories known in the corporate lingo as 'For Approval', 'For review' and 'For Information'. Trend of discussions centers with majority of time devoted on 'For Approval' issues covering 'Annual Recruitment Plan', 'Annual Production Plan', 'Engage of contracts with foreign agencies' as some examples in 'For Approval' category.

Categories like 'For Review' and 'For Information' have proposals like 'Status of corporate governance report' and 'Minutes of Audit committee'. Towards the closing time, the 'for

review’ and ‘for information’ agenda points are generally rushed through. There would be persons pressed for time like catching a return flight or things like that.

This cannot be an optimal way of functioning of the Board members. The ID must intervene meticulously, go through all such agenda points and make his relevant comments. One must go through the Audit committee minutes line by line even if he / she is not a member of the committee; similarly for the NR committee and Risk committee.

5. The ID needs to strike a delicate balance on the conflicting outlook of a teammate and an auditor

This is an introspection by the Independent Director needed on role-played.

An ID primarily safeguards the culture of corporate governance and the health of the organization. This involves lot of scrutinizing activities, evaluating the actuals with the statutory requirements and the philosophy of corporate governance. Such activities are close to the role of an auditor, but should not fall into the trap of considering himself only as an auditor.

ID has an equally important role as a teammate in the Board of Directors with responsibility in maintaining the group process, supplement the process of timely decision making by the Board on very vital issues etc.

IDs should not view themselves as a representative class of independent directors. In some occasions, IDs join forces and support anything the ID is putting up. Such instances may erode the Board dynamics and in course of time may lead to similar polarization by WTDs too.

ID thus has to balance and carry on apparently two conflicting roles technically known as ‘Duty of care’ and ‘Duty of loyalty’, of an auditor and a teammate (in a way role of a ‘judge’ and a ‘friend’).

6. Time to start a daily habit of Self-development

Continuous self-development and learning by doing is true for all professionals and IDs are no exception.

As soon as one comes to know, being appointed as Independent Director Position, it is time to be on alert, time to immediately sit down and refresh relevant skill and knowledge base, familiarize about the company, its performance and historical background, organizational culture ... Honing knowledge base pertaining to Companies Act and other statutory provisions are of utmost importance. Internet is full of contents about almost every aspect of working of companies.

In addition, the Learning and Management System provided by the Independent Directors' Databank portal (www.independentdirectorsdatabase.in) site covers comprehensively all the essential aspects of functioning roles of an ID. The byte-sized modules are suited best for people who are otherwise busy and who do not have the habit of going through long texts.

The writer also recommends the book 'Boards that Deliver' by Prof Ram Charan, which provides many thoughtful triggers in the area of improvement in the functioning of the Board.

7. Empathize with whole time Directors for their successful on-boarding

Last but not the least the issue of handholding of whole time directors ...

When a person becomes a whole time director, one's main energy continues on core functions of the departments already associated. Many times with continuous role elevations of a person to board level, core areas of professionalism also have undergone substantial enhancement. A Director (for example, in Marketing) would keep on spending most of his energy in providing leadership to his large hierarchy and clarifying behavior of the domestic and international market to the Board but simultaneously needs to run through the agenda issues pertaining to plethora of non-marketing issues like CSR policy or payment of dividend which are completely new areas. Similarly, it is true for a Director – Technical. Apart from many fold increase in his field responsibilities, it is important now to devote time in Corporate Governance, Financial and HR issues during deliberations in the Board.

It is logical therefore that the Board does a little hand holding during his initial months as a Director. It is a humble suggestion that the ID should be spearheading this on-boarding process. Rigid formalities, minor mistakes overlooked for time being, knowing that they are inadvertent. Informal relationships nurtured without compromising the material issues.

Retrospectively, board consists of matured professionals and experts in divergent disciplines. Introducing anything new in such a group can be a slow process to implement ... May even emerge as a herculean task. However, it is not impossible. It will require little bit of extra effort and resilience. If one pursues with right earnest, these experimental suggestions are implementable in real corporate world. Diffidence would come in if the ID thinks that corporate governance in the organization is such huge labyrinth and he alone cannot take up these tasks of improvement. Here my experience is that real life is much better than some times what we visualize. Once a suggestion submitted to the Board with humility and firmness, mostly the group considers it. Any new process anywhere requires resilience of persuasion and that is what expected from the independent director.

(Opinions in this write-up are purely the writers' individual viewpoint and not ascribed to any company or other organizations he has worked for.)