SPECIAL ARTICLE

Why boards need change

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This is something that maybe familiar to anyone who has studied at IIM Ahmedabad. Back in 1965, Ravi Matthai was appointed the first full-time director of the Institute. Alumni will know that Matthai was responsible for putting in place many of the building blocks that make IIM-A what it is today. But did you also know that Matthai insisted that he would be director for one term only? He served for six years, and then stepped down to resume his professorship.

Reports say that he did this because he did not want the directorship to be seen as a means of career advance mentor as a position for life.

Matthai's logic for not overstaying holds good for any board member in any organization. For too long, company boards were seen as cushy and club - like, where the old boys' network reigned supreme. To be sure, they had their use in the days when more business was done over golf than on the trading floor. But companies are answerable to investors and shareholders, and those old-boy boards are now archaic.

Before looking at how boards can be changed, let's take a quick look at what the law says.According to the Ministry of Company Affairs, a board should have a minimum of threedirectors in the case of a public company and two in the case of a private company. Themaximum number of directors has been set at 15, though companies can pass a special resolution to increase this. Also, every board is mandated to have at least one woman director. The tenure of directors has also been clearly set out; the Companies Act mandates that aboard member's tenure cannot be longer than two five-year terms.

With a specified tenure, it is possible to refresh aboard depending on an organization's growth ambitions. For this, every board needs a succession plan. A robust succession plan for boards is as important as a succession plan for CEOs. In fact, it may be even more important to have a succession plan in place for boards, because ultimately, it is the board that will decide on the direction of the company.

How does one ensure that a board is adequately representative and can maintain shareholders' interests, corporate governance, and organizational growth? Consider thefollowing:

Uphold organization's values: There are laws and rules in place mandating the composition of a board. But ultimately, a board is made up of people, and people should be chosen so that they align with the organization's thinking, values, and morals.

Even those who don't follow Indian business news would have read about the Ratan Tata-Cyrus Mistry imbroglio. I'm not going to enter the contentious space of who was right, but at heart, the Tata-Mistry battle was about shareholder interest, where Mistry made an expensive acquisition without the approval of key shareholders. Reports say Mistry was offered a low-key exit option, but he insisted on facing the board. Six board members voted for removing Mistry and two abstained. Reports say that the board members voted based on their understanding of the Tata Group's values and not on the basis of public opinion.

Ensure shareholder interest: In the corporate world, America's General Electric has been an example of succession planning. When longtime chairman and CEO Jack Welch anointed Jeffrey Immelt as his successor back in 2000, it created waves in corporate America and both Welch and Immelt were seen as standard bearers of succession planning.

Sixteen years after that, Immelt was "retired" by the board. Rather than giving guidance to the GE leadership, the board fell victim to an activist investor's threat of a proxy war. Immelt's transformation of GE to an innovative company was widely acclaimed. However, because of his focus on innovation, the GE stock price tanked. The activist investor who bought 1.5% in GEclaimed that the stock was hugely undervalued because the market did not have faith in Immelt. The board agreed, keeping shareholder interest in mind.

It can be, and has been, argued that the GE board gave in to the lure of short-term returns overlong-term profitability. But ultimately, it must be understood that the board was doing its best to uphold its fiduciary responsibility to its shareholders.

Ensure corporate governance: An alert board ensures that a company adheres to corporate governance norms. Back in 2009, when Ramalinga Raju admitted that Satyam had been falsifying accounts and inflating revenue for years, one of the government's first steps was to disband the Satyam board of directors. It was, after all, one of the primary responsibilities of the board to ensure that corporate governance norms are met and that the company follows a generally accepted code of ethics. Examples abound in India and abroad, but to me, Satyam stands out as a case of the board not upholding corporate governance.

Morality: I believe that a strong moral sense is vital. If a person's morality is beyond question, all else will fall into place. Yuval Noah Harari, a writer who inspires me greatly, wrote: "A global world puts unprecedented pressure on our personal conduct and morality. Each of us is ensnared within numerous all-encompassing spider webs, which on the one hand restrict our movements, but at the same time transmit our tiniest jiggle to faraway destinations." In today's cut-throat world, morality may seem like an old-fashioned concept, but as Harari says, it can have ramifications far beyond a balance sheet.

How does this translate into a board setting? Back in 2016, there were allegations of conflict of interest against the then ICICI Bank CEO Chanda Kochhar. These allegations were made bya whistleblower, but the board sat on them for more than a year. In fact, when the whistleblower's allegations went public and the media began asking questions, the chairman of the board gave Kochhar a hasty vote of confidence. A newspaper report says: "Finally, when it became clear to everyone except the board that her continuing at the bank was a problem, it [the board] ordered an inquiry by are tired judge. Even then, Kochhar agreed only to go on leave. Shortly afterwards, Sharma finished his term and was gone."

We do not know what drove the board members of ICICI Bank, but what is reported shows lack of integrity. Board members with high standards of integrity can definitely help organizations avoid situations like ICICI Bank or, earlier, Satyam.

Saying no: In both the ICICI and Satyam boards, there would have been at least one dissenter, if not more. But they were unable to express their reservations, and so allowed questionable practices to continue unchecked. This is something any board can learn from the courts. When a bench of judges writes a verdict, there is always room for dissenting opinion. The dissenter is not seen as a troublemaker; rather, he or she is seen as someone standing up for their beliefs and making the verdict richer.

If a member is assured enough of his or her opinion and is able to express that even if it goes against the prevailing view, that is important to the company. The leadership team will understand that the board is vibrant and dynamic and offers a 3600 view. It may also be possible that the dissenter changes the opinion of the majority because he or she is so convincing.

Able to support: The flip side of the dissent coin is support. I'm talking about a board that backs the CEO even when the decision is unpopular. Back in the 1980s, a few years after Steve Jobs launched the Macintosh personal computer in 1984, Apple was a complicated, fast-growing tech company. Jobs realized that the company needed an effective CEO, and so hired John Sculley away from Pepsi to lead Apple asking him the now legendary question: "Do you want to spend the rest of your life selling sugared water, or do you want a chance to change the world?"

Problems soon surfaced, as Sculley found that Jobs was creating a company within the company, and workers were up in arms at the way Jobs was driving them. Sculley complained to the board. Remember, Jobs was already a star and Apple was the company he co-founded. You'd expect the board to back him. Instead, on hearing what Jobs was up to, the board backed Sculley and Jobs was sacked.

Diversity: Diversity is an important reason for a board churn. I'm not talking of just having a token woman on the board. I'm talking of diversity of gender, of skills, of experience, and even of age. But that's not all. It's important for the board to have diversity of thought and experience. This allows the board to fulfil its mandate of providing holistic advice to the company leadership. While the majority of board members should have relevant experience, it is important to think a little out of the box as well. That's because a company is not uni dimensional, and challenges could come from anywhere. A board that's well-rounded will be well placed to offer strategic and operational advice.

Fire-fighting abilities: Is a director able to deal with black swan events? Most of you will remember when the Indian government banned the popular instant noodles, Nestle's Maggi. The government authorities claimed that Maggi contained ingredients that are harmful to human health and set off a crisis within the multinational giant. In response, Nestle recalled its India managing director Etienne Benet and replaced him with Suresh Narayanan.

Why Narayanan? He had, at that time, the reputation for being Nestle's fire fighter having dealt with the Asian financial crisis in 2008 when he headed Nestle Singapore, and then with the Arab Spring movement when he was heading Nestle Egypt. Having been in both hot spots before the crises happened, Narayanan was able to take preemptive steps and get the India factories and offices up and running sooner than anyone expected.

The Nestle case shows the need for people who cannot only prepare for emergencies, it's also about the need for people who can stay calm in a crisis. How did Narayanan get sent to fight these problems? Because the Nestle board includes people who understand the need for fire fighters. If the board had decided to back Benet in India, chances are Nestle's story would have taken a different turn.

Customer-centricity: Even if a candidate understands the processes of the organization, the person may not be a good choice if he or she does not understand the end user. Take the caseofPepsiCounderIndraNooyi.Nooyiunderstoodthatconsumerswereremovingtowardshealthier consumption, and away from soda and chips. Under her guidance, PepsiCo began pushing for “good for you” choices such as healthy snacks and fruit juices, as well as what Nooyi called “fun for you” options like chips and sodas. An activist investor tried to pressure Pepsi Co into splitting the company, saying Nooyi's plans would not be profitable. The board saw that Nooyi's plan would have a long-term benefit, as it would ensure that consumers got what they wanted at all stages. The board refused to accede to the activist investor, and backed Nooyi's plan. Nooyi's customer insights helped PepsiCo pivot from being seen as an “unhealthy” junk food company into an organization that is thriving in an era where people seek health everywhere.

So, how does an organization plan its board? And when should the process begin? Recruitment for successive board members should begin shortly after a new member joins the board. Even when the ideal board is in place, remember that it cannot be ideal forever. Times change, customers change, laws change. As we are seeing now, a virus can change the way we work. A board that is unable to keep pace with these changes is not going to be able to help in meaningful decision-making. The best way to ensure that the board stays in step with a changing world is to ensure that the board is refreshed regularly. Succession planning for boards is one of the best ways to achieve success for the company. ■

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