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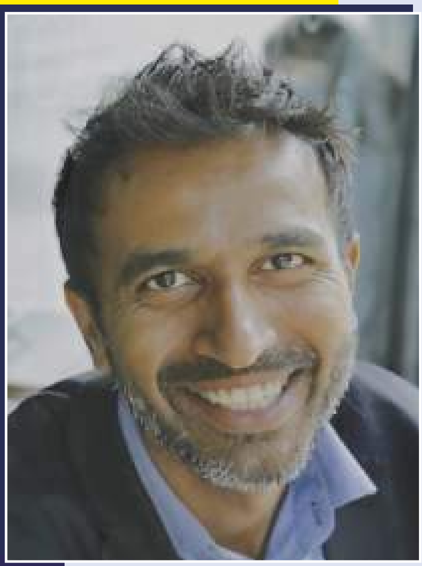

*Mr. Sony Kapoor

"Boards with members that are more dynamic, diverse, independent, international, and not overcommitted are able to equip the companies they oversee with more resilience to navigate times that are a-changing.

Helping Boards Navigate Uncertain Times

A summary of current times

Businesses that thrive must survive an environment where the only constant is change. But even where change is the only constant, the pace, scale, predictability, and impact of the vicissitudes of life vary enormously. As a pearl of wisdom, often wrongly attributed to Lenin, states, "there are decades where nothing happens, and weeks where decades happen."

It would be hard to argue that the weeks when the world first met the novel Covid-19 virus, Russia's invasion of Ukraine and the start of the US Federal Reserve's tightening cycle, all in the past three years, did not bring forth changes that would normally unfold over the course of years, even decades. When the history of our times is written, these would qualify as "weeks where decades happened".

These examples raise several questions for businesses trying to navigate and thrive such periods of great upheavals where long standing assumptions, "lower for longer", recent historical norms, "there will be no war in the heart of Europe", and taboos "democracies never impose draconian restrictions on citizens" can be broken overnight, and in a dramatic fashion.

For companies operating in emerging and developing economies the extent of change and the level of uncertainty are much greater. External shocks are compounded by deep shortcomings in bureaucratic responses. As the Covid crisis has brought home, most governments also normally cannot offer companies the same public finance buffers as in advanced economies to smoothen the impact – the result is much deeper scarring and longer-term impact on growth paths.

This is not to say that all changes that businesses must adapt to will be sudden or unanticipated as even the more dramatic shifts are wrought by slow burn, but systemic trends of worsening climate change, demographic shifts, and technological progress demonstrate.

In fact, it is the layering of the big, long-term, and directional changes wrought by systemic trends, with the medium-term but often cyclical fluctuations in the global business and liquidity cycle, and the more dramatic event-driven step changes in trends, geopolitical power and global norms that dramatically increases the difficulty for business to plan.

The critical questions we need to address

Could these changes have been predicted? Can their global impacts be anticipated? Can businesses be made more resilient in the face of these impacts? Can decision making, strategy, and contingency planning help businesses cope with, and even thrive in these times of heightened uncertainty and big changes?

These are but some of the questions that arise naturally in any current discussion on business planning, company strategy and corporate governance. Summarizing them leaves us with an overarching question that is, what can businesses in emerging economies do to be better prepared for a world where the pace, scale and scope of change could unfold in double time driven by layers of slow burning trends, cyclical fluctuations, and dramatic events?

Seeking to answer to this big question comprehensively is beyond the scope of any short article, so in line with the subject matter of the special issue, we will focus narrowly on a few tried and tested strategies and methods that can help boards better prepare firms for the times of heightened economic uncertainty we face, particularly in emerging markets such as India.

The unique role of boards in emerging economies

A first thing to note is, as anyone who has spent any time in emerging markets knows, ownership and control are more concentrated, and ownership and management are less separated, particularly in large firms, than in advanced economies. As a result, boards and especially independent directors cannot be expected to play the same role as in widely held public firms. This does not mean that board directors cannot help corporations anticipate and accommodate change, but to understand their role we must first understand the reality of management in emerging economies.

The normal life of most senior corporate executives looks nothing like the glamorous on-screen depictions. Often, and especially in the more dynamic, competitive, and chaotic environments characteristic of fast-growing developing economies such as India, CEOs and Senior Executives are vastly overstretched, spending most of their times putting out fires and in reactive mode responding to contingencies and exigencies with limited head space to plan far ahead, strategize, scope out scenarios and build resiliency into operations.

Especially in these circumstances, the role of boards becomes even more critical going above and beyond their fiduciary role as delegated representatives of owners / shareholders to the entity within corporates with responsibility to make sure that top management does not lose sight of wood for the trees.

The frantic and often chaotic reality of CEO and Senior Executive life means the board alone has the incentive, reflectiveness, brain power, fiduciary authority, headspace, and far-sightedness to work in a more hands-on manner with the executive management of companies and assist and urge and resource them to look up to plan and strategize for a longer-term horizon than they otherwise would be able or willing to.

The need for genuine talent, and a diversity of perspectives in boards

A good composition of boards well-equipped for such a large responsibility is challenging in any circumstance. Even in otherwise rich and developed economies of the EU, UK and USA, most boards have less talent, diversity, and dynamism than ideal. Too many boards in these economies fit under the rubric of "old boys clubs" and "family and friends" and few have the true cognitive diversity proven to improve the quality of decision making.

But especially in emerging economies where corporate governance is still playing catch up with norms in developed economies, where more firms remain family owned and family run, and where the role of governments in corporate ownership remains much larger, the need to widen the talent pool for board members and improve the processes for hiring dynamic and cognitively diverse boards cannot be overstated.

It is the experience of the authors of this piece, who have served on, and advised boards in several developed and emerging economies, that the quality and composition of boards can make all the difference between a company that thrives under challenging and changing circumstances and another that ends up as a one trick pony losing its way as the world it operates in changes beyond recognition.

Everything else being the same, boards with members that are more dynamic, diverse, independent, international, and not overcommitted are able to equip the companies they oversee with more resilience to navigate times that are a-changing.

Between family members, government representatives and other friends from within closed networks, there is limited room for well-qualified, experienced, and independent-minded board directors in too many otherwise promising firms in emerging economies. While status quo leaves much to be desired, this less-than ideal starting point means that even modest improvements to the quality of board compositions by increasing the number of independent directors and actively recruiting for diversity can help emerging market firms be much better prepared to navigate tumultuous times.

This is low-hanging fruit that must be plucked, and the Institute for Directors can help catalyze this change by expanding outreach, widening the talent pool, improving capacity building and training, internationalizing recruitment, and encouraging hiring for cognitive diversity.

There is much scope to improve board processes

Far too many boards are dysfunctional. Too many have dominant chairs (mostly men), loud and opinionated seniors, and more than a few seat bullies. In far too many boards there is clear and well-understood, even if never articulated, hierarchy, or a delineation between an inner and an outer circle with most independent directors, who can bring the most diverse and well-informed perspectives, often being relegated to the outer circle.

This is particularly acute in family-owned firms, in government-controlled firms or in firms with a dominant shareholder where those (rightly or wrongly) perceived to be close to the dominant owner wield more power, but who may also be the least independent, most conflicted and owe their position less to meritocracy than to networks.

The point being that even where the composition of the board may have the depth and scope of talent necessary to provide a strong guiding hand in uncertain times, the reality of board dynamics means that even the intellectual firepower, independence of thought and diversity of perspectives that exists on paper may not be harnessed in the service of the board and eventually the shareholders and stakeholders of the firm.

Commonly used tricks such as encouraging all board members to write down pros and cons for critical decisions and randomly asking them to speak for or against the decision have proven to be helpful in enriching thinking and decision making. Asking board members with known specializations to lead discussions pertaining to their area of expertise is also helpful. Encouraging each board member to intervene and keeping the domineering voices in check has been known to be especially constructive in improving decision-making by the board.

Other exercises such as anointing “devils-advocates” to explicitly argue against what are known to be majority leanings are particularly helpful in challenging groupthink, one of the most pernicious forms of poor board decision-making. Short sharp interventions are better than long-winded ones. Bringing in outside experts with reputations for challenging received wisdom can often be eye-opening, particularly at times where dramatic events from the left field can precipitate do or die decisions at firms.

Early warning systems can help deal with known unknowns

At the start of this piece, we painted the Covid-19 pandemic, Russia's invasion of Ukraine and the US Fed's about turn on the direction of monetary policy as dramatic events that unfolded in “weeks”. For too many individuals, governments, firms, and financial institutions that is exactly how they appeared, but for anyone who had their finger on the pulse, antenna in scouting mode, and was paying attention to their environs, the unfolding of these events was flagged and signaled and not a shocking surprise.

Very few events of geopolitical and geo-economic import will be genuine “black swans”. Most, including the three dramatic examples we began this piece with, will come with a warning, sometimes several. While it may not be certain whether the event will be triggered or not, and what the magnitude or impact of the event once triggered will be, the weeks and months of notice should give vigilant boards and managements enough time to kickstart a pre-planned process of “contingency preparation and planning” which will undoubtedly be helpful in navigating these uncertain times and unanticipated shocks.

For this, boards must develop an early surveillance capacity, ideally with a "member made" responsible for scouting for relevant news flow, and a process, including through extraordinary board meeting, of planning and preparing for emergent shocks.

Promote transparency of information on climate impact

A significant part of the problem of decision-making in corporations in emerging and developing economies is the lack of reliable and publicly available data. One of the areas where this is most damaging for the quality of decisions and where the range of uncertainty the greatest is the transition to a low or net zero carbon future.

Corporate boards have a central role in ensuring that the corporations they govern are properly prepared for this journey. Part of that preparation is the provision of information on the climate impact of corporate activities and the adoption of standards for providing this information. Adopting standards is a public good – the more companies use them, the more effective they are – and board members can play an important role in encouraging transparency.

The pressure on corporates will gradually increase to comply with economy-wide and industry-level standards, increasingly agreed at the international level. Anticipating changes and ensuring that they are reflected in internal incentives and disincentives to embed and align individual businesses' strategies with net zero and other sustainability targets. Boards of directors may consider setting up a specific committee to oversee the organization's carbon emission goals and strategy. Thought should also be given to linking executive compensation to net zero targets. It is through the agreement of corporate net zero plans, pursued aggressively, measured and assessed annually, that stated commitments are converted into business strategies, new products, opening new markets, creating new opportunities for profit and growth. ■

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