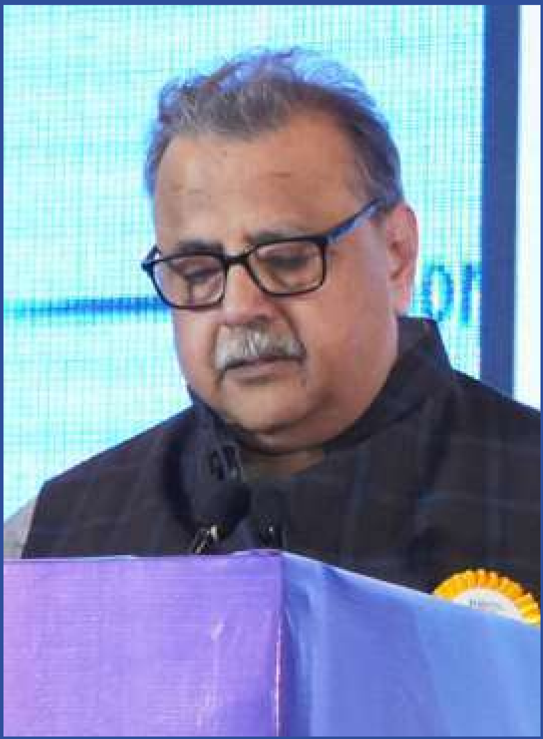

Indian Boardrooms: Evolution & Future Ahead

Mr. Sailesh, IAS
Member, Public Enterprises Selection Board (PESB), former Secretary, Dept. of Public Enterprises, Ministry of Heavy Industries & Public Enterprises Govt. of India

Hon'ble Shri R. Venkataraman, Attorney General of India; President, Institute of Directors, Lt. Gen. Surinder Nath; Mr. Nishant Arya; in absentia, former Minister (Minister of State for Parliamentary Affairs and Heavy Industries and Public Enterprises), Mr. Arjun Ram Meghwal, who I believe will be here shortly; distinguished awardees of the fellowship; I happen to know quite a few of them; distinguished guests; directors, and CEOs of the companies.

It's indeed a privilege and an honour to be here today for the Annual Day Ceremony of the Institute of Directors, and the theme, which has been deliberated today, is 'The emerging trends in corporate governance and building futuristic boards'. It is very relevant, both globally as well as in the Indian context. So I'll just briefly dwell upon a few important things, largely from the context of companies and boards in general, and a few things that may be more relevant in the Indian context. I do have some knowledge of the public sector, but I will not deal with them exclusively today, as I think recently in Bangalore I had a detailed discussion on their role and their contribution.

Companies, as we all know in India, if I take the data sets about 1.5 million companies and about 5000 listed companies, so when we talk of corporate governance, we really are not only speaking in terms of the listed companies but are talking in terms of the companies as a whole. Of course, there are regulations, there are legislations, there are ports and multiple of them, and therefore, when we talk of corporate governance, we need to understand the compliances and regulatory

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framework in which the whole ecosystem operates, whether it is under the framework of the act, whether it is in the framework of the SEBI guidelines, or whether they are arising from the CII's own code of conduct; all are relevant because this issue has been debated right up until this present decade.

We had an industry initiative at the Kumar Mangalam Birla Committee, and thereafter the government-appointed committees were there, which led to the revision in terms of the SEBI guidelines and also incorporation of the Companies Act. I think all the details must have been covered. What I would like to point out is: How do we see the business? Do we see the business only in terms of driving revenue and profits, or do we see something more?

As I dwelled into some of the big companies in India, I saw their vision statement, and I saw that they are completely aligned to the concept of business, not only in terms of creating value for the stakeholders but also in terms of businesses with a purpose. What is that purpose, and how do we define that purpose? That purpose is essentially for the community and for the stakeholders. So there is a very wide connotation; let us not only examine them from the perspective that they do create substantial wealth. I think my previous speaker did speak about how we were going to be reaching out to be the third largest economy, and the contributions of the business sector are phenomenal and, I think, spectacular, and what is there today perhaps will multiply many more times in the years to come, but we also value purpose. To be very honest, India has been at the forefront in many areas. In fact, when we talk about CSR, we are the only country to have legislated in terms of the requirements. As we said earlier, we are committed to the ESG framework. We have deadlines in terms of what we will be achieving by 2030, 2045, and 2047.

India as a country is very much in terms of what is required by the global standards, by the UN framework, and also by the benchmark of the OECD. When we talk of corporate governance, where do we look forward? We look forward to the framework of the OECD benchmarks, and we are very close in terms of the many metrics on which the global standards have evolved. The importance of business handling, which is the taking of risks and also dealing with stakeholders, cannot be viewed in isolation unless it impacts the community as a whole. What are the challenges and what are the risks in the emerging world we have today? We already know that we have tremendous geopolitical risks; we have macro-risks in terms of inflation, supply chain management, etc.; we have a huge responsibility for energy, climate, and sustainability. All these are again emerging areas to which the future company's and future boards will have to devote more than the traditional concept of financial performance. All these have become part of disclosures, and these disclosures may or may not be mandated, but they are increasingly becoming important because companies are identified in terms of these disclosures. It is their brand; their brand is valued both by the stakeholders, by the company itself, and by the employees. What else do we have as a risk? While technology is a big enabler, it also brings the cyber risk and the risk of privacy. These are some of the risks that every board and every company, be it small or large, will have to deal with.

Now, how do we take it from here to the board level? So do we think of corporate governance only in terms of the disclosures and compliance we have to make? No, I don't think so. Governance doesn't mean that it has to be driven from the top. It is not. It should be the company's culture. It should be at each level. So how do we empower each level to think in terms of all the ethical standards, be they accounting standards or auditing standards? We do have the requirement, and I think everybody knows it. Every company that is professionally run knows what the standards are, and they do follow them. The regulatory framework of the government and of the industry is necessary, but it is not sufficient. We need to create a culture of corporate governance amongst each stakeholder who is connected to the company. While doing so, the rich experience that the board brings not only brings the legacy but also the transformation and standards of the contemporary age and the ethics that flow in the contemporary time, and therefore it is the continuity that is built in, with merit, experience, and diverse skills. So these are the fundamental areas that the boards will have to think about.

So who are the stakeholders in their process? First and foremost are their **employees**, and the employees are not one set. Of course, the board will be dealing with the management, and the management is the first level at which the board will interact. Thereafter, there are sub-employees at various levels who bring in different expectations and look at the company from a different perspective. While driving the same vision, they do have some differences in terms of what they expect the company to have, and, therefore, employees are one of the largest stakeholders. The **vendors** or suppliers of the company are another stakeholder who has to be reeved in the corporate governance because how we deal with them in terms of creating value is very important. While we do appreciate that customers are the most important element of doing business, a good product alone is not sufficient. Good customer service is also not sufficient. So how do we ensure that a good product or a good service is meshed into giving a stellar customer experience? That is where the value of businesses will lie. **Shareholders and investors** are another set of very important stakeholders. Sometimes we call them impatient. In the new age of businesses, of course, there is the driving force of venture capitalists and private equity, which have different sets of expectations, whereas investors at large could be institutional and could be retail investors. They are a very important segment because they want companies to do well, because for them, it is the return that matters and nothing else; but 'nothing else' is with the caveat that they also want the

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company to do well in all spheres of life and without any hassle, and therefore, they look forward in terms of adherence to compliances and all legal framework that is to be done by the company. **Auditors** and their roles must have been spoken about. **Regulators:** the Ministry of Corporate Affairs is there; other institutions of the government are there; SEBI is there; groups of industry, including CII, chambers, etc., are there; and the companies own culture for ethics and code of conduct is extremely important.

So when we are talking about corporate governance, we are talking about meeting the challenges and expectations of each of the stakeholders in the system. I will give a brief example of public sector enterprises. There are about 350 odd public enterprises, creating a value of about USD 350 billion. Their boards comprise the functional director and the independent director, and there is a strong sense of ethics and a strong sense of purpose that is driven in these companies. They are in sectors of the economy, strategic sectors, and non-strategic sectors. In 2021, from a policy angle, we have announced a policy for the public enterprises whereby we do attract privatisation, and there is a very core monetisation exercise going on, in addition to the National Infrastructure Pipeline and also the Gati Shakti Programme.

So these are some of the elements in which the public sector operates. They have challenges, but they are meeting them; they have a very strong out-of-order book; they are creating value; and they are adhering to the ESG norms. While I talk of ESG norms, I must say that these norms are now becoming the benchmarks and part of the disclosures that will be essential for the annual reports to all agencies where such reports are to be given, like SEBI, primarily for listed companies.

So how does the board evolve while meeting the challenges?

While meeting these challenges, we need to recognise two great opportunities that are present in India. One, of course, is that we are becoming a big economy; we already have become the fifth largest, and surely it will go up to the third largest economy. But what is it that is driving? How are we transforming? We must acknowledge that 50% of the population of the country is young, i.e., below the age of 25. If I extrapolate the figures from the 2011 census, we will have about 50% of the population below the age of 25 and about 9% above the age of 60. Take out the 60%, and we have 40% of the population contributing to a substantial part of GDP, and that is very important. What is it leading to? What is the percentage of the middle class that we have created? 31% of India today is middle-class, and it is growing at a pace of 7%. This means that in about five years' time, we will have about 40% of the population in the middle class. So what is the opportunity? There are two opportunities. Number one is the young age population joining the workforce, and second is a substantial middle class, which is the driver of my market size. How do I estimate the market size? I estimate the market size based on this large cohort of the blend of the younger population and the economy in terms of upward shifts in incomes at the household level. So it's not that we are having GDP growth in a vacuum; it is creating a benefit to the economy in terms of household incomes, and that household income is driving the market, and that market is being driven by the investment. While at one step we create infrastructure, at the second stage, businesses are creating market size and investments—not only the traditional core businesses but also the newest businesses.

What will the composition of a future board or emerging board look like?

Of course, merit, competence, experience, and skillsets will be the driving forces. Does the board capture the imagination of young people? What does the board think in terms of the values that the young people have? This will be one of the important challenges. What about diversity? Is it only about the composition—that having one woman director on the board is sufficient? Diversity in the real sense will be diversity of thought, whether that thought can be varied, contemporary thought, legacy thought, or futuristic thought, and this is going to be relevant in terms of driving businesses. Of course, how do we measure the board's effectiveness? We measure it by stability, by clear communication, by their being agile and proactive, working in tandem with the management, and that is how we should evaluate the board, not only as a whole but also individually.

I have no doubt that when we look to the future boards in the coming years, all these factors, as we already know, will be very much on the agenda of the boards, including drawing talent, succession planning, transitioning to a newer generation, technology, modern thinking and approach, and universal compliances.

All of this will not necessarily be driven because there is a law, but because there is a culture of corporate governance. ■

Thank you.

Excerpts from the **'Keynote Address' delivered by **Mr. Sailesh, IAS**, Member, Public Enterprises Selection Board (PESB), former Secretary, Ministry of Heavy Industries & Public Enterprises, Govt. of India, at the '33rd IOD Annual Day Ceremony' of IOD's Annual Directors' Conclave held on August 10, 2023, in New Delhi.*