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THE GREAT BOARD REFRESH 2024 ROUNDTABLE

THE ROUNDTABLE: Refreshing the Takeaways

On 5 September 2023, thirty CXOs gathered in Mumbai to discuss the role of the independent director in the evolving corporate landscape.

The event was convened by Vahura, India's premier legal talent search and strategy consulting firm, in partnership with Institutional Investor Advisory Services (IiAS), a leading proxy advisory firm, along with Argus Partners, a leading Indian law firm. It marked the launch of 'The 2024 Board Refresh', a report put together by IiAS on the board structure and composition of NIFTY500 companies.

The roundtable took place at an opportune time. We're in the middle of the countdown to 31 March 2024, the date by which hundreds of independent directors will step down and have a new guard take their place.

The panellists, with a wealth of diverse experiences between them, came together to talk through fresh ideas, trends and debates that are already defining this moment of change. Over a couple of hours of spirited discussion, rich in information and insight, they touched upon several subjects.

The findings of the IiAS report provided a solid jumping-off point into some of these themes. For instance, the number of independent directorships in NIFTY500 companies crossing the magic mark of 50 percent in FY 2022-23 conveys how much progress has been made over the last few years. So does the fact that the boards of 401 out of the 500 companies were at least 50 percent independent.

That's not to say that the research didn't turn up any disappointing numbers. For instance, 46 companies—an overwhelming 83 percent were PSUs—were found to be non-compliant with regulations.

But the panellists didn't shy away from inconvenient statistics and touchy topics. By expressing themselves with candour, they advanced the conversation on refreshing and rethinking the boardroom.

Here, we've collected some salient points and key takeaways from the Roundtable:

THE INDEPENDENT DIRECTOR IN AN ERA OF FLUX

The increasing independence of boards over the last three years is a trend that is here to stay. The lines between management and the board are becoming less blurred. The panellists acknowledged the importance of maintaining a harmonious relationship, given that there can be overlaps in the roles and responsibilities.

They endorsed the collaborative aspect of this board-management relationship and stressed on the need for everyone involved to keep an eye on the common objective: unlocking new levels of corporate excellence and growth.

The independent director is meant to act as a coach and co-pilot, always keeping their eye on the road to alert the management to opportunities and to warn it about upcoming obstacles. The panellists agreed that the role of independent directors is clearly delineated: to develop and execute strategy.

There was an exchange on whether the concept of Lead Independent Director, popular in UK corporate governance circles, should be imported formally to India. A participant spoke about the shortcomings of that approach by highlighting some fundamental differences between corporate dynamics in India and the UK. In the UK, for instance, independent directors typically have a longer tenure. A fear was also expressed of a Lead Independent Director becoming a centre of power, which could upset the balance of the decision-making process.

SUCCESSION IN THE AGE OF TRANSITIONS

The panellists agreed that one of the areas where the board needs to play a leading role is succession planning. It's important that the board and the next-in-line are aligned on the vision for the company.

Presently, the board is often involved in discussions to pick a new CEO, but its input should be taken even for N-1 roles that are critical to a company's functioning. Already, we are seeing aspirants for roles like Chief Financial Officer and Chief Human Resources Officer make presentations to the board. The panellists felt that involving the board in this evaluation will lead to smoother transitions: not only does the board get a chance to build camaraderie with the new captains of the ship, the successors also experience a sense of hitting the ground running.

The board also needs to drive the process of selecting its own members. The panellists remarked on an encouraging trend of the chair of the Nomination, Remuneration and Compensation (NRC) Committee spearheading the search for independent directors. It was noted that it was best for the NRC Committee chair to be involved in interviews for all key positions: CEO, N-1 roles, directors.

EVALUATION IN THE ABSENCE OF STANDARDS

The key talking point in this vibrant discussion was the absence of a standard that can measure board performance. The relevance of qualitative scoring over quantitative scoring found favour with several panellists.

One of the panellists suggested setting KRAs for the various committees of the board and then scoring the chairs of those committees on that basis.

Another interesting idea that was floated was about external evaluation: every three years, an external evaluator could engage with every board member and share findings with the chair of the NRC Committee and the board.

While most participants agreed on the role of technology in facilitating anonymous—and therefore more effective—evaluations, the jury was out over whether board members should be compensated differently based on their roles and evaluation.

Another idea that was discussed was for the chair of the NRC Committee to collate feedback about director performance from the independent directors and then share it with the chairman of the board.

The view that the board should be evaluated as a team—and not individually—also found favour in some quarters.

THE SKILL GAP IN A TECH-FIRST ENVIRONMENT

The panellists spoke about the benefits of bringing in experts to help with digital transformation and issues related to Artificial Intelligence.

It was felt that directors need to take continuing education seriously to upgrade their knowledge base and skillset.

The board needs to be looked at as a team so that it's easier to identify areas where there are gaps like age diversity or functional expertise.

While most panellists spoke of the need to bring in experts, especially in the area of technology, they also acknowledged a very real issue faced by companies: the inability of specialists to sometimes grasp strategic issues and take a wider view.

BOARD REFRESH IN A VUCA WORLD

A key point that came through was that the board refresh is an integral part of risk management as regulations get more prescriptive, business becomes more complex and investors start demanding more. In a VUCA world, it has become imperative for companies to include board refresh as an agenda item on par with management succession planning.

The panellists chimed in with compelling perspectives about how companies can go about refreshing and rejigging their boards. Everyone more or less agreed on the benefit of advance planning—of at least a couple of years—to account for an overlap period between old and new talent.

Relatedly, it was felt that any board refresh should be staggered and not wholesale to preserve institutional memory.

There were some lively exchanges about the kind of people who could populate a board. One of the panellists shared anecdotal evidence of younger directors—in their 40s and 50s—driving some impactful conversations. On that topic, another panellist raised a thought-provoking issue about selection. Often, the board selection pool was limited to people who were already connected to the promoters and that led to younger, more talented people missing out.

The session ended on a promising note, with the panellists convinced that such conversations need to be taking place more frequently, and in a timely manner. The overall view was that key stakeholders in the corporate governance community need to come together more often to air their views, take stock of their experiences and learn from each other.

This Roundtable was a moment to celebrate what has been achieved, but also to contemplate what is left to be done. The consensus? To maintain the momentum in demanding high-quality, representative boards that can hold their own while remaining committed to cohesiveness and collaboration.