

# Business Today

Home OPINION Columns Story

Search 

## Corporate literacy test: A board exam of a different kind

The Modi government has taken a big leap forward to transform the corporate governance arena. India will suddenly take global corporate governance leadership when it comes to vetting and certifying the knowledge of its board members.

Ralph Ward & M Muneer Last Updated: June 17, 2019 | 14:51 IST



Story in Audio

### ECONOMY IN NUMBERS

GDP GROWTH	JOBS GROWTH
UNEMPLOYMENT	INFLATION



As part of the proposed initiative, incoming independent directors will have to clear a corporate literacy test on a variety of topics before their appointment as a director.

### WE RECOMMEND



BT Buzz: Global dairy companies carve their India strategy

The Modi government's initiative to reform corporate governance to weed out the increasing fraud and "where was the board?" embarrassments is a refreshing concept. Of special interest to the coming generation of corporate directors is the proposal of a mandatory "exam" for all new board members. This is indeed a globally innovative step, to say the least.

As part of the proposed initiative, incoming independent directors will have to clear a corporate literacy test on a variety



## DAILY NEWSLETTER

Get our best delivered to your inbox

Enter Your Name

Enter Your Email

I agree to receive newsletters and marketing communications from BusinessToday via E-mail\*

SUBSCRIBE

BUSINESS TODAY



Here is a list of some premium gaming phones that you can buy in India

#### MORE FROM THIS SECTION



Five ways to safely dispose of your electronic waste



Caution! IT Dept is keeping an eye on your social media posts

of topics before their appointment as a director. We have been raising the alarm on the duties of board directors over and above regulatory compliance -- and yet things have been moving at a snail's pace.

Also Read: [Independent directors may soon have to take exam on corporate literacy](#)

The integral role of an engaged and effective board is to guide the organisation in shaping and executing a winning strategy. It needs to broadly oversee five distinct areas to make the enterprise it serves successful: Approve and govern the corporate strategy; guide major financial decisions; help in selecting, evaluating and monitoring the CEO and building succession plans; provide guidance to the CEO, and finally, ensure compliance.

The government is understandably upset over the quantum of fraud damaging the State-run banks' coffers, and will probably roll out this new oversight programme in this quarter itself. The real goal according to the government seems to be the accountability of board directors who claim ignorance when confronted with issues that have devastated too many enterprises in the recent past, from Jet Airways to IL&FS, and possibly new ones like the Reliance ADAG.

Also Read: [Vedanta appoints M K Sharma as non-executive independent director](#)

The online exam should evaluate the knowledge of Indian company laws, the (much-talked-about-but-never-seen) ethics, the norms of capital markets and so on. Unlike other exams, the government plans to allow unlimited attempts to pass (too bad this standard wasn't in effect when we were in school.)

Most businesses in developed or advanced economies require licensing to operate - everything from hair salons to tattoo centres to travel agencies to healthcare. Yet, surprisingly in almost every world economy, there is no need for enterprise board members to be tested for their abilities. Those few privileged individuals chosen by investors to guide and oversee the biggest of businesses do not require any training or special classes, and never had a reason to appear for any exams. Unbelievable!

Also Read: [Two more Manpasand Beverages board members resign amid GST fraud case](#)

The Modi government has taken a big leap forward to transform the corporate governance arena. India will suddenly take global corporate governance leadership when it comes to vetting and certifying the knowledge of its board members. But as pioneers in this effort, it is crucial that it be done right. Here are a few topics we propose for the first class of directors sitting



Fixing Our Crumbling Financial System

This Issue | All Issues

**SUBSCRIBE NOW**

Available on: PRINT

#### LATEST MUST READ TECH NEWS



Shriram Transport shares fall over 6% after Piramal Enterprises sells entire stake



Nubia Red Magic 3 gaming smartphone to launch in India today; check specifications, price, more



New Income Tax rules from today; defaulters can't escape by just paying penalty



Reliance Infra share falls over 7% on biggest ever quarterly loss of Rs 3,301 crore



Encephalitis: Death toll rises to 100 in Bihar, Health Minister Vardhan assures help

**MORE**

#### You May Like

Promoted Links

[Flights In India At Ridiculously Low Prices](#)

Save70.com

[Pakistan warns India about Pulwama-like terror attack in J&K : News Reel](#)

[This Photo Has Not Been Edited, Look Closer At The Hole](#)

Trendchaser

[Sitharaman-led GST Council meets, Kia Seltos unveiled in India : News Reel](#)

[प्राकृतिक रूप से लंबाई बढ़ाने का सबसे अच्छा](#)

for the exams:

- **The essentials of Indian corporate law-** What are the basic business structures, how are they regulated? Who are the regulatory bodies with authority over these? What are the mandated duties of chief executives, board members, and managers?

---

- **Capital market requirements-** What are the norms for our exchanges' stock listing, such as market float, compliance requirements, regulatory minimums, and so on? What are the suggested (though non-mandatory) "best practices"?

---

- **How much does the candidate know about finance, accounting and auditing?** This would not require in-depth accounting knowledge, but rather the basic financial literacy demanded for overseeing a corporate entity. Is the director conversant with accounting terminology and basic financial statements? If you cannot read a balance sheet, you have no business being on a board of directors. Some "spot what is wrong with this financial statement" exercises could be very useful here.

---

- **Business ethics-** Again, "What would you do in this situation?" tests could be very telling to assure the director knows the standards on conflict of interest, corruption, compliance and ethics oversight in the boardroom. As an example, in a situation where a promoter pushes a restructuring plan that could improve efficiency, but also squeeze out a minority holder, how should the board proceed?

---

- **What is the specific role of a board director?** This important element is often overlooked. The board member's job is subtly but crucially different from those of investors, promoters, or corporate executives, and the director must "know the role." How does the board assure it has effective corporate controls, access to the right information, right board structures, meetings and keeping of records? And finally, is the board candidate aware of the legal penalties for failure as a fiduciary (both corporate and personal)?

---

Also Read: [RBI to focus on governance reforms in banks, non-banking sector in coming months: Shaktikanta Das](#)

Although the government is planning to exclude experienced directors who are serving the boards currently, it may be a good idea to include all of them into it. If there has to be exclusion, it should not be on the basis of seniority, but instead on the basis of performance, and the rules must be formed clearly based on their track record, etc.

तरीका !

Height Gainer

**Election results: Prakash Raj calls defeat in Bangalore Central a**

**Canon's latest, the EOS RP, is an entry-level mirrorless camera**

Business Line

**India's Most Wanted Box Office Collection Day 5: Arjun Kapoor-starrer struggles at the box office**

**Salary above 35000? Apply for Credit Card Now. 55+ Options to Choose From. Apply Now!**

Bankbazaar

**Odisha Class 12th result 2019 will not be declared today on chseodisha.nic.in**

by Taboola

India's regulatory body should also think of assessing boards on the basis of its alignment with the enterprise strategy by way of mandatory balanced scorecards, directing focus to delivering winning results and not just compliance. And the impact will be long lasting and sustainable. This will be another globally leading initiative if introduced. We recommend that all board members (and those aiming for a board role) seek training on this knowledge now -- the stakes are high, and the planned pace of enforcement fast.

Also Read: ***Tech Mahindra appoints former Axis Bank CEO Shikha Sharma, Haigreve Khaitan as independent directors***

Also Read: ***Yes Bank's former interim MD & CEO Ajai Kumar quits board***

***(Muneer is co-founder and chief evangelist at the non-profit Medici Institute and Ralph is a global authority on boards; both drive board alignment.)***

DO YOU LIKE THIS STORY?



Like

Share

Tweet

Share

MAIL PRINT

COMMENT

**Tags:** Independent Directors | Narendra Modi | Modi Govt | Modi 2.0 | NDA Government | Corporate Governance | Corporate Literacy | Capital Market Norms | Injeti Srinivas | Companies | News | Company Directors | Company Board | Company Law

Previous Story

Next Story

**Extinction Rebellion- Its not climate change, its climate emergency**

**Advisor to J-K Guv K Vijay Kumar pays floral tribute to SHO Arshad Khan**

## You May Like

Sponsored Links by Taboola

### Intuit Recognized By Cloud Native Computing Foundation

Intuit

### Man decided to file divorce after he had taken a closer look at this photo!

Just Perfact

### The Race to 5G: Fast and Furious

CNBC International for Globe