The Economic Times (Edit Page)
! November 2018

COMPANY BOARDS

A Room Without Much View


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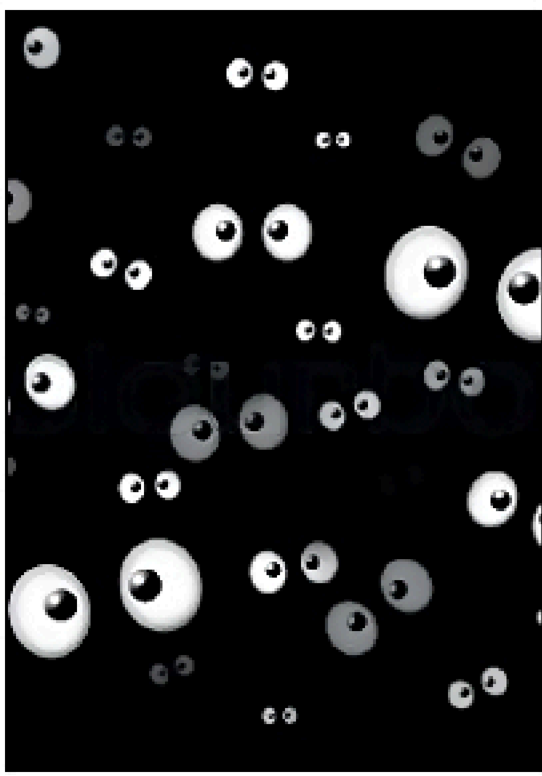
The chutzpah of the ICICI Bank board and the gaffe of the Axis Bank board have been much talked about of late. After facing a lot of flak, the boards of the two banks finally got around to do the 'right thing': ICICI's Chanda Kochhar stepping down early last month after allegations of conflict of interest against her, and Axis Bank agreeing to not extend Shikha Sharma's fourth three-year term beyond January 2019 for the bank's poor performance. With the Securities and Exchange Board of India (Sebi) accepting most of the Kotak Committee recommendations on board governance, investors imagine fewer Kochhar-Sharma-type surprises. And yet, 'surprises' in other boardrooms continue, the latest being at Yes Bank.

The new regulations of splitting the role of board chair and CEO, tougher disclosure of related-party transactions, and limits on the number of directorships should cure the ills of governance. But it's still too early to heave a sigh of relief. Most of these reforms only help Indian enterprises to catch up with the governance benchmarks of developed economies without curing all their governance ills. And the blame lies solely on these enterprises.

The structure of the board, how it functions, and its contradictory role and demands, all conspire against it doing anything very well. Consider the ways a board of directors — particularly its independent outside members — are isolated from the basics of the company, its employees, its dangers and its opportunities.

As an independent member of a board, one doesn't know, for instance, that the company's outside auditor has been battling with the company over the accounting treatment for a substantial charge, and that a short-term compromise was hammered out just before the audit committee meeting.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Who'll turn the lights on?

One also doesn't know what skills the director sitting across the table brings to the board. He never contributes anything, and seems uninterested, but one assumes he must have some special skills.

One doesn't know, for instance, that the sales staff in the northeast region has a manager who pushes everyone to book sales by the end of the quarter by any means. This has triggered a number of sales reps to leave, and the rest to skirt business and accounting ethics.

You don't know that, say, someone, somewhere on your company's network has opened an email welcoming a ransomware bug into the main enterprise resource planning (ERP) system. Tomorrow, this e-visitor will inform your IT staff that you have 24 hours to deliver ₹150,000 in bitcoin to a mystery account, else, everything in the company system will be erased.

One doesn't get to know, for instance, that a major corporate investment the board just approved is going into a firm in which the company CEO's family has a stake.

The list goes on, and certainly some, if not all, such issues can erupt in a company without the board having a clue. So, when will the board get to know about them? How should one respond?

The culprit for such darkness reigning over the corporate board is the corporate board model itself. This is not a problem just in India but everywhere else too. And, unfortunately, there is no handy panacea for making the corporate board model tick like a clock. There are simply too many built-in flaws, anachronisms and contradictions.

There may not be any cure immediately, but there are treatments: board scorecards for alignment and improving how boards function; stronger and better oversight tools; review meetings. These may not be the big reforms that Sebi will want to focus on. But these are small fixes that are tactical, technical and data-driven. They are not glamorous, and far from exciting. But these tweaks can just about keep the board balanced in its fiduciary role — and avoid those 'surprises'.

When former ICICI Bank chairman M P Sharma stuck his neck out to defend its CEO, Kochhar, who seemed to have erred on propriety, full disclosure and value adherence — remember the bank's motto, 'Khayaal Aapka' (Caring for You)? — eyebrows were raised on potential beneficiaries alongside the CEO's husband. But, finally, the board decided to become non-unanimous and conduct an enquiry.

Turbulence in boardrooms will continue. But at least with some housekeeping norms in place, much unnecessary ruckus can certainly be avoided.

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