A Report on

IOD INDIA GLOBAL WEBINAR

Global Webinar on

Maximising **Board Effectiveness** & **Engagement** amid Pandemic

AUGUST 27, 2020
New Delhi

Institute of Directors (IOD) organised a Global Webinar on **August 27, 2020**, on two digital platforms – CISCO Webex & Facebook, which was largely attended from all over India and abroad, with distinguished speakers and around 500 guests. Participants were drawn from all across India and abroad. The Theme of this Global Webinar was **'Maximising Board Effectiveness & Engagement amid Pandemic'**. The Global Webinar was supported by **Nasdaq Boardvantage and Associate Partner - Steel Authority of India Limited (SAIL).**

Lt. Gen. J. S. Ahluwalia, PVSM (Retd.), President, Institute of Directors, India, in his 'Welcome Address' welcomed IOD members, honoured speakers and guests. He spoke on how the COVID-19 pandemic has been an unprecedented human tragedy and one of the worst health and financial emergencies ever witnessed, with far reaching repercussions. He mentioned that we need a digital recovery through up skilling, with safe contactless engagement. He said, "Future boards really need to be more effective to tackle critical issues head-on". He specially highlighted a few areas for board functioning to meet future challenges which included the following:

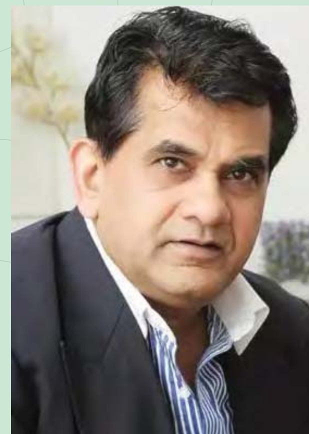
- Boards must be composed based on the 'Board Diversity Matrix' comprising ethnic, gender, education, skill and experience for a cohesive optimal mix; and one which is as diverse as the society and the community it serves.
- Manage and rebuild supply chains which have been disrupted by the pandemic.
- Have an effective board committee structure, with periodic rotation.
- Have robust risk oversight and risk appetite to execute effective hedging strategies.
- Change emphasis from monitoring and compliance to creativity and innovation.
- Meet challenges posed by digitisation and emerging technologies.

He further commented, "Organizations need to see disruptions as opportunities. We need a compelling vision, structured approach and roadmap to cope with unprecedented social, political and economic upheavals."

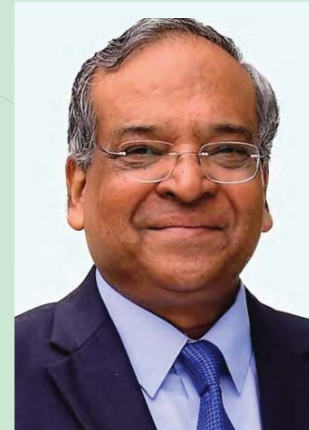
The Companies Act, 2013 has raised the bar for Indian boards by introducing new rules and responsibilities for Independent Directors and Women Directors towards stakeholders. Boards have to set out dynamic strategies which are digitally value driven with long-term view, life-cycle planning and sustainability, to keep pace with technology. In respect to compliance, an annual performance review of the Board should be made mandatory by third party in India, as practiced in United Kingdom, every three years.

Mr. Amitabh Kant, IAS, Chief Executive Officer, Niti Aayog (National Institution for Transforming India), Govt. of India, in his 'Keynote Address' (delivered via a recorded video) expressed his gratitude to IOD for organizing this webinar on an important theme, and hoped that the webinars would ideate and bring forth innovative and transformative ideas for the betterment of industry. "Covid-19 is one of the biggest crisis and challenges, the country has faced so far. Leadership has become a need of the hour during the pandemic", he said. He commented that "under normal circumstances, the line between governance and management is usually clearly defined but this crisis has blurred this line." The Board's role should always be to support management and to act as a facilitator. Boards will have to move fast but with caution to prevailing circumstances and oversee the deployment of crisis management protocols. In these very challenging times, Boards will have a substantive role in adapting, innovating and initiating changes for the benefit of their own companies and industry in general. The Boards along with Chairpersons and CEOs must understand the value of team-work, effective communication and resilience to adapt with a flexible learning mindset. Boards need to periodically pause, assess, anticipate and then act for the benefit of organisations. Boards should

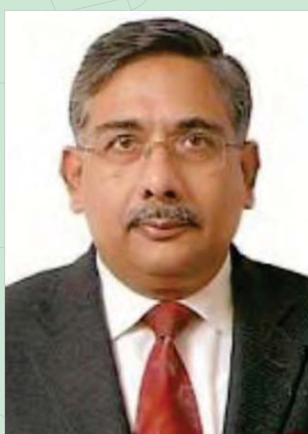
DISTINGUISHED SPEAKERS



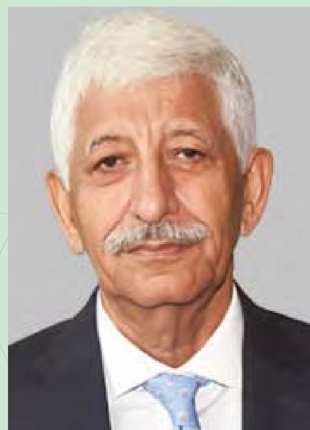
Mr. Amitabh Kant, IAS
Chief Executive Officer
NITI Aayog
(National Institution for Transforming India)
Govt. of India



Mr. Dhanendra Kumar, IAS (Retd.)
Chairman, Committee on
National Competition Policy of India;
former Chairman, Competition
Commission of India
& Secretary to Govt of India and
Executive Director, World Bank



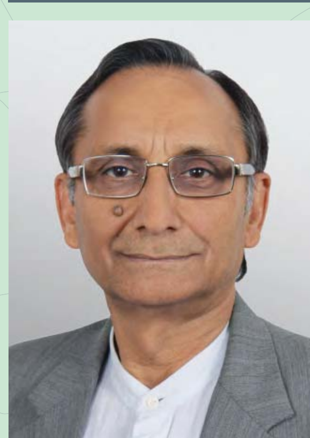
Mr. Saurabh Chandra, IAS (Retd.)
Chairman, MCX Ltd.
(Multi Commodity Exchange of India);
Independent Director on the Boardsof
JK Cement Ltd., SBI Pension Funds Pvt. Ltd.
and Vacmet India Limited & Member of the
Advisory Board, Vedanta India Ltd.;
Former Secretary, Ministry of Petroleum and
Natural Gas,Govt of India



Dr. Ajay Dua, IAS (Retd.)
Director on the Boards of Dabur India Ltd.,
Dabur International Ltd, Kirloskar Pneumatics
and Compressors Ltd. and
Bussan Auto Finance Ltd.; Senior Advisor to
Mitsui & Co, BNP Paribas Bank and
Kyosan Electric Manufacturing Ltd.;
Former Secretary, Ministry of Commerce
and Industry, Govt. of India

Mr. Stephen Page FCIS
Head - EMEA Board Engagement,
Nasdaq Governance Solutions, UK

Dr. (Ms.) Aruna Sharma, IAS (Retd.)
Member - Digitisation Committee,
Reserve Bank of India; Independent Member,
MFIN (MicroFinance Institutions Network);
Independent Director on the boards of
Welspun Infra and Jindal Steel & Power Ltd.;
Former Secretary, Ministry of Steel,
Govt. of India



Mr. Rahul Sarin, IAS (Retd.)
Independent Director on the Boards of
Reliance Capital Limited, Reliance General
Insurance Private Limited and Afthonia
Private Limited; Former Member, Competition
Appellate Tribunal; Former Secretary to
Govt of India

Mr. Ashishkumar Chauhan
MD & CEO, BSE Limited
(Bombay Stock Exchange)

Mr. Anil Kumar Chaudhary
Chairman
Steel Authority of India Limited
(SAIL)

challenge the management's thinking on how the crisis has fundamentally shifted business operations and changes which will impact the company's strategic direction. Boards need to adapt to a new environment and see what the new normal holds for the organization. Boards will be defined and judged by how well they set the tone for their organisations and how well they model that tone themselves, embodying aspirational values, which will inspire and instil confidence in the company. Boards that act fast to reinforce a strong, compassionate and positive culture with both internal and external stakeholders stand to benefit the most during the post crisis. Boards have an integral role to play in understanding the immediate needs and responses of the organization while challenging and supporting management to drive long-term security, surety and sustainability in this environment. The focus should be on actions that are imperative for Boards to support the future work agenda. On the future of work he commented, “Companies need to proactively strategize and plan for the what, who, where and how of a shifting work landscape, expanding their future work portfolio over time as the workforce changes. Boards can use technology to monitor the pulse of the changing work environment, to help empower current and future talent. Providing virtual work options and new ways of interaction within the organizational ecosystem is the new normal. It will lead to improved marketing position and brand value. The success of this strategy will essentially determine the return to work in the future of work.” Boards can also seek to improve diversity and inclusion within the workforce by bringing in voices from across generations and talent models for diverse perspectives. This will help drive innovation and engagement while fostering an inclusive environment. The board is most impactful when serving as a thought partner to management reminding them of the importance of staying close to key customers and clients and helping them think through, what the business and customer franchise ought to do after the dust settles. History demonstrates that the most significant shifts in a sector's competitive rankings occur during moments of crisis and uncertainty, with winners differentiated by the ability to play offense and defense, prioritizing discussions that contribute to the company's recovery narrative seizing opportunities to better stakeholders' needs and reminding executives that putting people before profit typically will pay you off in the end and will give you rich reward. It is important to maintain momentum throughout a recovery period like we are in right now. We should be committed to achieving worthwhile and transformative outcomes in these times in all our respective capacities. The next few months are important for this and we must use this time optimally.

This was followed by a Panel Discussion on ***'Maximising Board Effectiveness & Engagement amid Pandemic'*** *which was Chaired and Moderated by* **Mr. Dhanendra Kumar, IAS (Retd.)**, Chairman, Committee on National Competition Policy of India; former Chairman, Competition Commission of India & Secretary to Govt. of India and Executive Director, World Bank.

The other eminent Speakers of this Session were:

Mr. Saurabh Chandra, IAS (Retd.) Chairman, MCX Limited (Multi Commodity Exchange of India); Independent Director on the Boards of JK Cement Limited, SBI Pension Funds Private Limited, Vacmet India Limited; Member of the Advisory Board, Vedanta India Limited; and Former Secretary, Ministry of Petroleum and Natural Gas, Govt. of India,

Mr. Rahul Sarin, IAS (Retd.), Independent Director on the Boards of Reliance Capital Limited, Reliance General Insurance Company Limited and Afthonia Private Limited; Former Member, Competition Appellate Tribunal; and Former Secretary to Govt of India,

Mr. Stephen Page FCIS, Head - EMEA Board Engagement, Nasdaq Governance Solutions, UK

Dr. (Ms.) Aruna Sharma, IAS (Retd.), Member - Digitisation Committee, Reserve Bank of India; Independent Member, MFIN (Micro Finance Institutions Network); Independent Director on the boards of Welspun Infra and Jindal Steel & Power Limited; Former Secretary, Ministry of Steel, Govt. of India and

Mr. Ashishkumar Chauhan, Managing Director & Chief Executive Officer, BSE Limited (Bombay Stock Exchange)

Mr. Kumar complimented IOD for organising conferences on relevant themes and praised the day's panel comprising of former Secretaries to the Government of India amongst other distinguished speakers. He began his Address by commenting on how the pandemic has impacted our way of living and way of conducting business and characterised this as time to reinvent ourselves and stay ahead of the game. “Boards have to stay afloat by taking care of their human capital, mentally & physically. It is extremely important to have the confidence of shareholders as well. Similarly, the Board has to gain the confidence of the management. Boards should support and guide management, by virtue of their experience and ability to innovate, and should be prepared for the changing government regulations and policies.” Efficient reporting systems should be in place for the Board and management to take informed decisions. Communication is the key in these times. Directors must be aware of the latest regulations and laws like Companies Act, 2013 to better understand their responsibility.

He shared an incident from his time on the Board of Directors of the World Bank when there was a serious complaint against the President of the World Bank. After a detailed enquiry, the allegations were found to be true and the President was asked to put down his paper. This was unprecedented event in the history of the board of directors in the World Bank.

From this incident, we can learn that the board of directors also has a responsibility during extreme situations of crisis to take whatever measures are necessary to discharge their responsibility. Similarly, Independent Directors should take the responsibility of minority shareholders or a particular group. Boards should keep an eye on what other companies and their competitors are doing in terms of adopting new technologies, skilling workers or entering in new businesses which would bring synergy and add new revenue. He quoted the famous saying, “As the going gets tough, the tough gets going” and said, 'The Board should navigate the management in difficult situations'.

Mr. Chandra mentioned that the defining feature of this pandemic is uncertainty caused by the fear of the unknown. Economic activity has been adversely affected. Boards have the responsibility to lead their companies through this turbulence. Riding through the storm will test their character and leadership. Tough and unpleasant decisions will have to be taken. Companies which weather the storm successfully will emerge stronger with greater competitive advantage and a bigger moat around their operations. He quoted *Rudyard Kipling* saying, *“If you can keep your head when all about you are losing theirs and blaming it on you”* in the face of uncertainty. The first instinct is to take a maximalist position, the tendency to overreact has to be curbed and knee-jerk reactions have to be avoided. But the current circumstances require prompt and decisive action.

He referred to *Daniel Kahneman's* thinking system. System One is that where the thinking is fast, instinctive, emotional, effortless and unconscious. As opposed to System Two, which is the aspect of the operating system of the brain which is deliberative, effortful, conscious and logical. Handling complexity and navigating through conflicting data and opinions requires reflection, deliberation, discussion and analysis. Depending on which mode of thinking is being adopted the same inputs will give different results and people will react differently to the same situation. Best results can be achieved by marrying system to thinking, with timeliness of decisions.

He also discussed a few, seldom discussed pitfalls which should be avoided by Boards, especially in contingency crisis situations, such as the current pandemic, which include:

- Isomorphic Mimicry – Imitating best practices of other corporates. “One size does not fit all”. The problems faced by each corporate are unique and are different. You have to be aware of cognitive biases in particular anchoring, availability, sunk cost, bias and loss aversion.
- The Fallacy of Centrality - One does not know everything.
- Blind Spots - Absence of evidence does not mean evidence absence. If you don't know what your competitor is doing it does not mean that he is doing nothing.

He shared the priority areas for decision making:

I. Connect - The word 'connect' is a lot more than communication. It means understanding the needs of the stakeholders. There has to be two-way communication because of the importance of the feedback.

ii. Plan for the long term and the short term.

iii. Decide the risk appetite of the company.

iv. Review of corporate policies, especially those related to risk management, human resources and cyber security to mitigate the detrimental impact on manpower, supply chains, financials, etc.

He concluded by saying, resilience and grit for the long haul; Creating a climate where people can lead with or without authority and Developing a capacity and willingness to absorb bad news and adaption to a constant state of flux.

Mr. Sarin commenced his Address by quoting *Confucius*- “*To know what you know and what you do not know, that is true knowledge*”. In today's world we know that the pandemic has pressed the reset button on us but, what we do not know is what will be the impact and effect of it, how long it will last, and what is the trajectory going to be for recovery. In this transitioning period, we have to survive and thrive. He was of the view that, “This new normal is only an interim normal.” The line between boards, management and the actual functioning of companies is getting blurred, one such cause being regulative forbearances. We need to have a framework with embedded triggers to mitigate risks with corrective measures. On the future of work post-pandemic, he commented, “Work transition from offices to 'work from home' and 'work from anywhere' is already visible and is the natural way for the future of work. Corporations like Twitter, Facebook and TCS have made it very evident that 'Work from Home' is a way forward. There will be decentralized offices or small pods all over the city and people will start working from anywhere.” The nature of future jobs also is likely to change and it is changing. The future may be more flexible like limited working hours and the ability to take up alternate jobs. This pandemic has accelerated our dependency on digitization. Boards need to come up with disruptive solutions in the current period of transition and uncertainty. The World Economic Forum in a recent report said that there are more than 58% chances for a prolonged global recession, and 44% chances for a high unemployment level, about 35% industries are not likely to recover. This is based on the analysis made by 375 analysts on 22nd July. “The productivity and creativity equation is changing”, he noted. Technology is being used more for increasing productivity, through AI, Big Data, and other emerging technologies, whereas the times call for humans to add value. To conclude, he quoted *Scott Belsky*, *“Time and energy spent on creativity is far more useful than the time and energy spent on productivity”*.

Mr. Page spoke on the notion of responsible business and how that affects business decisions. “This pandemic has anything but accelerated this process”, he said. Corporate reform is necessary and businesses should rethink their business models. The demand for responsible businesses and to embrace shareholder or stakeholder capitalism is growing everywhere, but what does it actually mean in practice? Responsible business or stakeholder capitalism needs to be defined in a meaningful way that allows boards to make informed decisions in particular about their capital allocation.

Pressure is clearly building on boards to engage with and satisfy their stakeholders. Under such circumstances, “Directors should be speaking with different stakeholder groups, each group pursuing its own special interest.” What should CEOs, Executive Directors and Non-Executive Directors do when faced with a call to operate as a responsible business in effect to embrace stakeholder capitalism? Commercial businesses must generate sufficient profits for their activities to fund their businesses which include funding development research and innovation. The notion of short-term 'profit maximization' is under pressure. If businesses do not make a better case for benefiting society, they risk losing their social license to operate.

He defined 'Stakeholder Capitalism' as “a system by which companies are motivated to create long-term value for material stakeholders with profits being a by-product.” It can be contrasted with 'Shareholder Capitalism', defined as a system by which companies are motivated by profit maximization with stakeholder value being a product. There is strong academic evidence pointing to companies being more profitable instead of being less profitable, if they create long-term value for their stakeholders. Boards must use an actionable framework when making investment decisions. He concluded by saying, “Till date, the most effective way for a company to be purposeful and responsible, is to be excellent in delivering its services or products.”

Dr. (Ms.) Sharma spoke on the scenario of employees, low level workers and the packages offered by the government. It is critical for companies to analyse whether to opt for the government packages like term loans and moratorium, or not. Companies should analyse the benefits being offered by the government. Similarly, companies faced a roadblock with deficit 'working capital' as banks were reluctant, even after the push from the Reserve Bank of India and Finance Ministry. This is where CEOs and Boards had to present the financials and arguments, convincing for the requirement of flow in working capital.

With the unlocking, industry is reviving. Some industries like Steel and Micro-finance are going for a V-curve recovery. Only 30% of the microfinance sector opted for moratorium. It was because the sector was well informed about the impacts it will have on their payment.

“Under the current scenario, in my view, Boards will have to take a very holistic approach. Starting from acknowledging their current situation, they will need to come to the drawing board to work out short-term measures, analyse benefits being offered by the government, and consider very carefully, the need for taking up moratorium or not.”

Another major challenge is for workers. Organisations would have to keep in mind the pay-off to its employees and other statutory payments. There have been payment delays, salary cuts, employees kept on furlough, etc. It has become very important for companies to have a clear cut vision for the employees and workers, depending on the company's performance, i.e. whether the company will sink or stay afloat. This leads to a need for better healthcare facilities in companies and proper healthcare expenditure allocation. The current situation also requires focus on automation, which will consequently lead to less human intervention, thereby impacting employment. But there are a few sectors where human intervention cannot be avoided. It is also time to invest in re-skilling manpower. We have to keep an eye on our competitors in the domestic and global market. The future demands digitisation, automation and virtual meetings.

Another major challenge is how we manage our finances. Sectors like steel, aluminium and fin-tech are going for a V-curve recovery but, the service sector will face challenges. Boards and Independent Directors will have to keep an eye on the policy makers, and see how they can be influence policy makers to make a better case, like in the case of extension of moratorium period by RBI.

Mr. Chauhan mentioned that these last 6 months were the worst period for Boards and the management. With the pandemic of this magnitude, the role of Directors has become far more important. Modern society works on the 'trust framework'. Millions of people invest across the world, if they have confidence in the leadership of companies. Indian companies have come out wonderfully in these difficult times in gaining people's confidence. Boards not to only have to direct but also, do the hand holding with management.

It was expected that there could be food riots but, the Indian Government has managed the situation it very efficiently. Even after 70 days of a proper lock down and 80-90 days of partial lockdown, there were no incidence of food riots. The Covid-19 fatality rate has also decreased substantially in India.

He noted how the Indian stock market especially has been in the green even during this difficult time. “What happens is that the stock market theorizes all the available information, in any domain, anywhere and then it is incorporated into the price of stock and the index as well. Capital markets represent the assets which are going to give profits over the next 30-50 years. So, the temporary disruptions like Covid-19 showed its effect but not in a long run.

There was an information in market that there will be 20-30 crores infections in India due to Covid-19 by end of August, and it acted as a black swan moment because that information was never discounted in the prices. This news came like a huge bolt from the blue and people brought down their expectations from the companies and their profits by 40-50%. The index dropped to nearly 40-50% from 42,000 to nearly 24,000. It happened because the market predicted that if millions of people are going to be infected and die, it will have repercussions for over 30-40 years. But when the lockdown progressed, the entire framework progressed. People realized that the infection and mortality rate due to Covid was not as bad as in comparison to the experts predicted. India managed the Covid situation efficiently and as a reflex action, the indexes went up from 24000 to 39,000 today.

Lastly, it depends on the government's own reactions across the world. The government has put in nearly USD 12 trillion since the Covid-19 pandemic, and that liquidity is chasing the long term assets, which is what the stock market is.

Many economists, newspapers and televisions are wondering why the Wall Street is in difficulty and why the Dalal Street is rejoicing it. It is not rejoicing at all, it is basically reflecting the newer realities.

The Panel Discussion was followed by a very energetic and engaging **Q&A Session** which was moderated by the Chair of the Session.

Some of the questions included:

Q. What are the best practices known so far, on boards' intervention in the last six months? What are the emerging changes in board practices?

Response by Mr. Rahul Sarin: Firstly, provisions for virtual meetings have been issued which requires confidentiality and secrecy on the discussed agenda. A major example is Reliance Capital Limited, which held its AGM online on June 23, and was very well attended. The second major change is that the frequency of board sub-committee meetings has increased, with and for more detailed and effective engagement. Earlier, there was hardly any actual analysis, discussions or formative changes for policy making.

Response by Mr. Dhanendra Kumar: There was a study done by Spencer Stewart in April 2020, where a number of meetings were held with more than 100 directors representing over 120 large and highly regarded US companies to understand- *'What strategies are being adopted by directors for more effective oversight?'* In brief, the study outcomes were to be focused on - better communication between the board and management; changes in the executive and board compensation in order to motivate the personnel to accept salary cuts; emergency succession planning; security of data; rationale documentation and contingency planning.

Q. The mood is now one of contraction and slight pessimism. Does this add more to the director's plate? What can be done by the directors to assist management in this situation to aid strategic risk-taking?

Response by Mr. Saurabh Chandra: A real example from the Multi-Commodity Exchange Limited can be taken. When the trading hours were curtailed between the March 30 and April 22, the turnover had plummeted, it was decided to control the cost. Across the board, including Directors and senior staff, there were no increments and a 10% pay cut was executed. The external markets helped, and the turnover went up by 2.5 times. So in July, pay cuts were removed. The idea is to stay nimble, watch and read the situation. Mind-sets and attitudes have to be changed. People also have to inculcate discipline while working from home. Not everything can be controlled, we must see how the situation changes and take prompt action. The management and the Board have to be constantly in touch.

Q. In these unprecedented times, would it be a good idea for Boards to meet more often, to assess the impact of Covid-19 on their operations and monitor course correction measures? Also, whether boards should spend more time on strategic and performance related matters and less time on statutory matters?

Response by Mr. Saurabh Chandra: There was a study on 'What are the best Boards supposed to do?' According to the study, the best boards are supposed to:

i. Do strategic planning

ii. Do succession planning

iii. Look at big transactions

iv. Lower their priorities in looking at old financial statements and further lower their priorities in looking at past compliances, it is a history which cannot be changed but, certainly few lessons can be learned to perform future acts.

The frequency of board meetings has increased through virtual platforms, from once in a quarter meeting to 2-3 meetings per quarter, leading to better communication amongst the Board and the management.

Q. What have been instances of the company's board sections that have enthused confidence in shareholders in these times?

Response by Mr. Ashishkumar Chauhan: There are many companies over the last six months, who have done wonderfully well to engage with their investors. Companies like Reliance created a framework to raise funds when everything was looking so bleak. They ended up giving hope to many Indian companies, saying we also might be able to raise funds. Though companies in the tourism sector or airline sector may not have fared well because of the adverse environment, we have to keep the fire burning. Boards have to go ahead, raise funds, keep the production and supply chain running and so on.

Q. How the performance of board members can be measured to ensure effectiveness?

Response by Mr. Saurabh Chandra: In general, each Director evaluates the other director. But at exchanges, there is a model which other companies can follow - an Independent Director gets a three year term, but he can get another term by going for an external third party evaluation. This same model can be adopted by other companies. For listed companies, the faith in corporate governance is perhaps the most important key driver for increase in stock prices.

Thereafter, a Special Presentation was made by **Mr. Stephen Page, FCIS**, Head - EMEA Board Engagement, Nasdaq Governance Solutions, UK on **"Cognitive Diversity and Board Assessments: Driving Boardroom Excellence".**

Mr. Page started with a question – *"Are the boards answering the right questions?"* Some Boards are actually fighting yesterday's battles and not focusing on data that really matters. This speaks for the need for greater board diversity, and to ensure that each Director can bring something different to the boardroom.

He posed a second question on - *Board Evaluation – "Are we performing effectively?"* How can a board know it's performing effectively, if it fails to properly measure its performance? As *Peter Drucker* said, *"What's measured improves."* We all have blind spots and boards are no different. Board Meetings do not lead to a complete story of the challenges and opportunities, faced by business. He shared a study done by two social psychologists around 2001, which had two groups – an American and a Japanese group. Both groups were shown a video clip of underwater scenes. When they were asked to describe what they had seen, both groups reported seeing very different things. The American group talked about the different fish whilst a Japanese group described the background and did not refer to the fish at all. These blind spots resulted from cultural differences, said the study. It would have been better for performance purposes, to combine the American and Japanese groups, thereby eliminating the blind spots. The outcome of this study, urges us to have diversity of thought in the boardroom i.e. board diversity. There are two types of diversity:

i. Cognitive Diversity

ii. Identity Diversity

Cognitive Diversity also referred as 'Diversity of Thought' concerns with perspective, intelligence, experience and different thinking styles whereas, **Identity Diversity** also referred as 'Demographic Diversity' relates to gender, ethnicity, religion, or any form of diversity that can be grouped into a demography. Cognitive Diversity can significantly improve the performance of boards and helps in reducing the problem of blind spots.

He presented three common statements on 'Board Diversity' and pointed out the areas overlooked often:

I. Diversity means a trade-off with the quality of directors.

He shared a hypothetical scenario to bring diversity in a group of female nuclear scientists. He pointed out that diversity is not restricted to bringing new people; it also includes bringing diverse and relevant skills.

ii. We need the most clever, experienced and knowledgeable directors.

We all have blind spots, Experts have blind spots. Experts are no different.

iii. We just need to make sure that directors make accurate decisions.

Being correct is not enough, when we have different options to evaluate. We need to innovate, find different insights on the board.

He opined- ***"We need to think about boards holistically, not as a collection of individuals: a well-constructed board will "outperform" individual directors."***

He shared a 'Duke University Case Study' which included 28,000 professional economists. The study – '*Whether the average prediction of a team is better than the prediction of the top performer?'*

He made various combinations of groups and the conclusion was – We can get a much better picture by pooling information rather than taking perspectives from a single person, even if that person happens to be the top performer. "If boards harness the power of cognitive diversity, then the decision making will certainly improve", he concluded.

He also shared his views on *'Meetings being appallingly inefficient'*. Over the last two decades, the time spent by managers and employees in meetings has increased by over 50%, but many studies show some basic failings. The two most common problems with Board Meetings are:

i. Dominance Dynamics

ii. Information Cascade

Both the problems eliminate diversity of thought and pose performance problems for Boards.

Dominance Dynamics is categorised into:

a. Dominance Leadership - It invariably involves the leadership style of the CEO which often takes the form of a dominance leadership. This impacts subordinates to fall out of status, or fear, or both.

b. Prestige Leadership - It happens when team members command respect because of their prestige and expertise.

There is a strong school of thought that CEOs need to flip between these two leadership styles. A board needs 'Dominance Leadership' by a CEO when executing strategy, whereas 'Prestige leadership' should be used by CEO when diverse opinions are needed by fellow directors in the boardroom.

Information Cascade happens when information flows from top to team members. They think the information they hold is already known to the board and therefore, refrain from coming forward with their thoughts.

He also shared his thoughts on the **Purpose of Board Evaluation.**

People ask why the board evaluations are performed and for whom? This question was recently considered by the UK

Government in undertaking a review on the effectiveness of third-party board evaluators at the request of UK Government. The study was undertaken by **The Chartered Governance Institute, UK** which posed these two options:

Option 1 – "Board evaluation is done to reassure shareholders that the board takes its responsibilities seriously. In this case, the external reviewer identifies areas for improvement."

Option 2 – "Board evaluation is undertaken to assure shareholders on future performance it provides. In this case, the external reviewer takes the role as a Quasi Auditor."

Majority of people went with **Option 1**, i.e. Board Evaluation is only about reassuring shareholders that the board wishes to improve.

He cited the UK 2018 Corporate Governance Code requires including the following information in the company's Annual Report and accounts.

- The process of board evaluation
- The outcomes of the evaluation
- The action taken by the Board
- How it will influence the Board's composition

A UK Case Study on Board Evaluation disclosures was conducted at 10% of the FTSE 350 accounts filed that year. Top five Board Evaluation Disclosure outcomes were:

i. Better management of board meeting material

ii. Increased stakeholder engagement

iii. Continued evaluation of board composition skill set

iv. Improved understanding and oversight of risk

v. Increased focus on strategic guidance

To conclude his presentation, Mr. Page shared that there is a possibility, other than in UK, that there will be two new voluntary codes concerning board evaluation, along with a guidance note. The new board evaluation codes will apply to all external board evaluators and listed companies.

Following this, a **Q&A Session** with Mr. Page ensued.

Q. How can you describe the basics of the board decision framework?

Response: The boards need to be mindful of trade-offs. There is a particular framework based on three principles:

i Principle of multiplication

Eg. - If you are spending a dollar, you need to make sure you get a dollar in return.

ii. Principle of comparative advantage

Eg. - When you undertake a project, you should have a comparative advantage in that area to some extent.

iii. The project undertaken should benefit your material stakeholders.

Q. What do you mean by creating stakeholder value?

Response: Stakeholder value is the same as social value. When people talk about stakeholder value, it means profits for investors. If the same is asked for employees, it will about giving them their livelihoods. Similarly, in case of customers, it will be about the added value. For suppliers, it would be about the funding. For environment, it would suggest renewals. For government, the social value will be in the form of paying tax.

Q. How can you define 'Corporate purpose' in these times?

Response: 'Corporate purpose' has two dimensions:

(i) *Who does the company exists for?* The company exists for material stakeholders.

(ii) *Why the company chooses a particular purpose?* This leads to comparative advantage that the company has.

So, there are two dynamics to corporate purpose and the companies need to mention the 'Who' and 'Why' in developing their corporate purpose statement.

Q. How stakeholder capitalism affects the board? Share an example.

Response: As per the academics, the benefits of stakeholder capitalism accrue in the long run. Therefore, time horizon is very important. So, when we look for an investment, decisions should be taken on the long term benefits and not short term.

Mr. Ashok Kapur thanked all the eminent speakers, along with all the participants who participated in large numbers and contributed their knowledge through questions and interactions. Special thanks were also conveyed to **Nasdaq Boardvantage** and **Associate Partner - Steel Authority of India Limited (SAIL)** for their generous support.

Compiled by:
Ms. Sana Rehman
Executive Editor – Director Today
Manager - Board Research & Advisory Department
Institute of Directors, India