

"The old order changeth, yielding place to new." In the days ahead, stakeholders will get to see this playing out in boardrooms. Change with continuity has to be the watchword. The splitting of the positions of Chairperson and MD is also some months away. We discuss a few possible scenarios.

Editor

ROOM AT THE TOP



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This is AGM season. It is that time of the year when the faithful find their way to some distant hall or auditorium to be a part of the congregation that gazes with curiosity, and sometimes with fondness, at the women and men in charge of the destiny of their investment. Some of the annual reports that are carried to these meetings have been reasonably well-thumbed in the search for information, inconsistencies, or worse. In recent times, some of the attendees have also resorted to taking selfies with Directors as they descend from the stage, and on occasion, taking photographs of the wise men and women seated on the stage.

This year is a good year to take such photographs. Many of the persons who have graced boardrooms and AGMs for years will not be around as Directors in the days ahead. Some would have left of their own volition. Some others who would have intended to serve in the same capacity would have been persuaded to leave because of recommendations of proxy advisory firms to the effect that the day you complete 10 years as an Independent Director (ID), you cannot be independent of the management or the promoter(s), no matter how hard you try.

Change in the composition of Board is a normal phenomenon post the expiry of tenures of serving Directors. Boards will now be a combination of change and continuity, with the expectation that fresh ideas, layered on existing wisdom, will serve the company very well. Come 2020 and there will be another major change not seen hitherto. A number of persons who chair the Boards of large listed entities will make way for new Chairpersons. Yet others will remain, but get recategorised as Non-Executive Chairpersons. Accompanying this will be the phenomenon of Managing Directors (MDs) or Chief Executive Officers (CEOs) unrelated to the Chairpersons.

How will this play out? In a few companies where the same person is the Chairperson and the MD (CMD), she/he will have to decide, before it is too late, which of the two roles would be better to retain. Anyone keen on an executive role and the responsibilities attached thereto, could opt to remain the MD, while bringing on an unrelated person as the Non-Executive Chairperson. This could, in many cases, be a serving ID who is unlikely to rock the boat and will provide unquestioning support for whatever the management does. A variation on this theme would be the MD also getting designated as the Vice Chairperson of the Board. There have been a few instances in recent times where Non-Executive Chairpersons embraced anonymity and were not visible, while the Vice Chairperson and MD remained the face of the company.

Another combination will make for an even more interesting proposition. The incumbent Executive Chairperson could transit, as required by law, to a non-executive role, and designate his daughter or son as Additional MD or Joint MD (JMD), while inducting an outsider as a MD, with a circumscribed role that is largely decorative or ceremonial.

It is also useful to reflect on whether persons who have been Executive Chairpersons and MDs can easily move to a non-executive role. There are recent instances of persons whose designation has undergone recategorisation, but whose desire to exercise power and control has in no way diminished. If this becomes a more widespread phenomena, the well-intentioned regulatory prescription could be rendered meaningless. Let us not forget that one celebrated company had an **Executive** Chairperson, an **Executive** Vice Chairperson and a Chief **Executive** Officer. Did someone say "Two is company and three is a crowd"?

Given this context, it is not easy to comprehend why, on the demise of a longtime legendary Chairperson, the MD was given that additional responsibility. With 1st April, 2020 not too far away, companies such as these will have to contemplate yet another change involving the division of responsibilities.

There is an even more recent case where a widely respected patriarch has made way for his son as Executive Chairperson of the Board. Would it be fair to expect that when the statutory bifurcation of responsibilities kicks in, the young Chairperson, with several decades of executive responsibility ahead of him, will transit to a non-executive role?

Two promoter brothers, one a Non-Executive Chairperson, and the other a Non-Executive Vice Chairperson have accommodated a next generation person as Executive Vice Chairperson, while having a professional MD. There clearly is room for everyone!

Leading a Board is a major challenge. It would be unfair to the Board, the company, and the individual concerned if a person is brought in from the cold as a Non-Executive Chairperson, and expected to provide constructive leadership.

The good news is that there is room at the top. The not-so-good news could be that some sub-optimal occupants might head for that room, especially if a meaningful search has not yet started.

READERSPEAK - An open letter to Minister, Corporate Affairs

We received a record number of responses. What follows is a small sample. Please keep the responses coming.

Editor

Rangachary N, Former Chairman, IRDAI

"It has now become a fashion to deride institutions and professional bodies without appreciating their role, capability and relevance."

Kiran Mazumdar Shaw, CMD, Biocon

"Excellent letter throwing up key issues with very sensible recommendations."

Madhavan Nambiar, Former Secretary, Ministry of Civil Aviation

"A system of getting quality persons on Board as IDs and training and mentoring them is key."

Nilesh Vikamsey, Past President, ICAI

"Assuming all those connected with a 'tainted' company as wrongdoers or abettors without assessing their role / responsibilities with an unbiased mind, needs looking into."

S Vishavanathan, Former MD, SBI

"It is the need of hour to take a nuanced approach, as opposed to a broad brush one size fits all view, of the institution of IDs and the other entities that you have alluded to."

V. Santhanaraman, Former Executive Director, Bank of Baroda

"Video recording of the entire proceeding could be made compulsory, as the individual directors' discussions are not minuted and only the final outcome is recorded."

Raghu Palat, Director on Boards

"The biggest hurdle I see for independent directors is the lack of information they receive. Certain companies have been known to be selective in the information they make available, arguing that should the ID require specific information they would make it available."

Do let us know of any specific issues you would like to see addressed in subsequent issues.

Excellence Enablers

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