Candour in the cockpit
The Board. Reinvented.

Recent research into flight safety has thrown up an astounding fact — many crashes that were termed as 'pilot error' could actually be traced back to cultural dynamics in the cockpit: lack of teamwork and communication, and critically, excessive deference to the captain's authority. Black box recordings have shown that co-pilots or flight engineers failed to challenge the captain's decisions, even in an emergency situation.

Switch to a boardroom: a CEO, recognized as a strong personality, is discussing an impending acquisition. Most of the board members, including the management, feel the acquisition is a mistake. Yet they don't challenge the CEO. Meanwhile, there's a quality issue at one of the company's plants, which is going to result in unsafe products, a situation that could bring the company down. Sitting in the boardroom is a director who helped navigate his company through a similar crisis. Yet the CEO and CFO decide not to seek his advice and bury this information toward the end of the board agenda. Look at the boardroom as the cockpit of a company — is it any mystery then that ineffective boards today pose the biggest risk to Indian companies?

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If Indian boardrooms had black boxes, this is what the recordings would reveal:

- Directors who sit on a dozen boards and are unable to attend all the meetings, and contribute little during meetings they do attend
- Boards which are comprised overwhelmingly of an 'old-boys-network' and get paid handsomely to remain silent
- Selective or incomplete information provided to the board on critical issues facing the company
- Independent directors who are viewed by management either as rubber stamps or super-cops, rather than significant contributors to shareholder value
- Information on threats, risks, and their monitoring is not systematically communicated to the board
- Directors who are 'independent' but unable to provide insights because they lack the requisite experience or understanding of the business

The existing regulations and codes on corporate governance are like an aircraft's flight manual. It outlines the way things ought to be done, and our corporate executives today are doing an excellent job of checking the boxes. But a board navigating a company through tough times has to do a lot more than adhere to the flight manual. It has to empower itself to make a value-added contribution to the company. And it has to tackle the fundamental stumbling block to being an effective board — its culture.

Which board do you want to sit on?

'Rubber stamp'

- Directors are friends of the CEO
- Communication is a one way street
- Meetings are not organized and managed effectively

'Check the box'

- Directors do not provide meaningful contribution to the business
- Boards fulfill regulatory expectations via a check-the-box approach to corporate governance
- Independent directors don't have significant leadership roles within the board
- Management provides very selective information to the full board
- Management views outside directors as 'watchdogs'

'Strategic asset'

- Effective team — built on trust and capability, strategic in nature
- Hold themselves accountable-performance oriented culture at the board level
- Independent directors provide both oversight and insight
- Directors bring value in the form of new ideas, networks, perspectives, and formal and informal advice
- Outside directors work closely with the management team, even outside the boardroom
- Board meetings are planned, organized and conducted effectively

Level of effectiveness

Evolution of a Board

The ABCs of boardroom performance

Attitude

Call it tone at the top, or attitude in the cockpit. Any cultural change in the boardroom has to start with a change in beliefs and attitudes. First and foremost, both management and directors have to believe good governance is good for the business: that it is not merely a compliance matter, but a matter of surviving and thriving; that effective corporate governance is a competitive differentiator. Based on this belief, the CEO's mindset will undergo a shift: he or she will view the board as a team comprised of capable individuals with diverse skill sets and experiences. CEOs who choose to tap into the diverse talents at their disposal can stand to gain immense contributions from board members. Hence CEOs might want to ponder on why they are willing to spend large amounts on consultants for advice, but are loathe to tap into the consultants that already sit on the board. Empowering the board is about increasing transparency in the organization at all levels — allowing key issues to be openly discussed inside and outside the boardroom. In effect, it is empowering all levels of the organization, so employees can act ethically and report misconduct without fear of reprisal. Board empowerment can send a powerful wave of attitudinal change across the entire organization.

Behaviour

As an independent director, if you are sitting on more than five or six boards, you are threatening your day job and running the risk of losing your hard-earned reputation. Cut down the number of boards you serve and choose only those boards that allow for a transparent team-based work ethic and where you are valued as an effective contributor.

As a board member, take charge of driving cultural change in your board. There are several steps you can take to demonstrate behaviour that is consistent with your attitude and beliefs:

- Play the role of an advisor — influence your board's chairman to start treating the board as a strategic asset
- Demand that all relevant information for the board meetings be sent well in advance, giving you time to prepare
- Ask tough questions before and during the meeting — only then forge consensus
- Step out of the boardroom and build relationships with executives and management that are running the day to day business in the company. These are

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opportunities to listen and to contribute; to identify risks and opportunities and to arm yourself with resources that enable you to excel in the boardroom

- Drive accountability in the boardroom. Ask for performance evaluations — of the board and its individual members. Be open to peer evaluations

By translating the right attitude into behaviour, effective boards create the culture that is so essential to executing their responsibilities well; however, there's still one more stop along the way to outstanding performance.

Capability

Consider the predicament of today's Chairman who has adhered to regulations on director independence in selecting the board, but is now faced with the prospect of board members who don't know enough about the industry or the business to provide value-added insights. A common complaint from these CEOs is that such directors are more adept at erecting barriers and raising objections than providing perspective and meaningful advice. Effective boards select directors with individual areas of expertise, and invest on an ongoing basis on their formal and informal education, to keep members abreast of the latest industry developments.

Recruiting the right expertise to the table is just the start. To harness these capabilities, the most effective boards make sure that directors understand their roles: that their job not only involves monitoring financial performance, ensuring compliance, and attending to shareholder interests but also shaping long term strategy and understanding the threats and opportunities critical to success. Effective

One of the most talked about corporate governance issues in Indian boardrooms is that of disciplining the dominant shareholder to protect minority shareholders. While there may be a few recent scandals that support this premise, this is not the universal truth. In these types of companies, promoters have the most to lose, as they own the majority of the company. Many promoters see good governance as good business and establish a board that makes meaningful contributions to the business. A CEO at a manufacturing company was recently discussing a successful turnaround at their company three years ago and their recent top and bottom line growth despite a turbulent economy. "We owe our survival and our current success to our board members. Three years ago, facing an imminent crisis, we invited new board members to join our board. They continuously tested our management team: our information, our assumptions, our decisions. They challenged our outlook, encouraged us to enter new businesses and markets, pushed us to take intelligent risks and backed us all the way. They opened doors to customers, financiers, and key managers." The company had used their board as a strategic asset and was reaping the benefits five years on, despite the challenging economy. Effective board members in promoter-driven businesses:

- Provide independent, third-party perspective on important issues
- Act as the "devil's advocate" in key discussions
- Fill competency gaps through expertise and experience
- Encourage promoters to obtain different perspectives from academia, governance experts, and industry experts
- May provide valuable input on:
  - Strategy
  - Management succession planning and leadership assessment
  - Compensation
  - Risk management
- Understand the value they bring to the board

boards build capabilities within themselves and their organizations that allow them to do both, protect existing assets (compliance role), as well as, manage threats to future growth (strategy oversight role). We call this capability 'being risk intelligent'. Most boards implicitly understand that enterprises make money by taking calculated risks and lose money by failing to manage them. Consequently effective boards are smarter about how to calculate and manage risk and reward, thereby allowing them to survive and thrive during turbulent times.

Nobody can reasonably expect boards to be right all the time; inevitably, some of the careful bets you place will lose. But every stakeholder can expect and insist that you make the best decision you can, weighing the information (risk intelligence) available at the time and the options at your disposal. This is a fundamental fiduciary responsibility of the board.

Good governance is good business

Ineffective boards today represent the biggest risk to their organizations, but those boards that are prepared to change the culture can transform this risk into a phenomenal opportunity. Fundamental to this is a change in attitude on part of CXOs and independent directors: to view each other as team-players worthy of trust and to recognize good governance as a competitive differentiator.

Reinventing the board is not a monumental task. **It is a simple choice between being led and being a leader.**

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Don't overlook, but oversee: making boards risk intelligent

Here's what boards can do to become more risk intelligent:

- Elevate risk to the board level. The topic of risk should be placed on the full board meeting agenda on a regular basis, perhaps several times per year. Care should be taken that only critical risks – those that are suitable for board level discussions are presented – not an endless list of all risks faced by the organization
- Broaden your view of risk. Don't limit your deliberations to fraud prevention, inventory protection, IT security, and the like. These are all important items, to be sure, but they are more related to "survive" than to "thrive." Widen the lens through which you look at risk: not just as protecting existing assets (downside risk) but as preparation for growth (upside risk)
- Leverage the transparent culture that you've built at the board level by bringing various risk managers into the same room to present their perspectives and strategies on risk. This will jump-start a collaborative and synchronized approach to risk management
- Line up with management. Work in synchronization, not at odds with management. Require of CFOs and CIOs and other business leaders the infrastructure that allows risks and opportunities to be identified, evaluated and reported to the board, thereby helping the board make risk intelligent decisions
- Assess risk performance. Ensure that there are periodic, independent assessments to evaluate the effectiveness of the full risk management program. It is the board's duty to determine whether risk management processes are as rigorous as they can be. After all, you don't want to first learn of weaknesses when the mother of all risks lands on your doorstep and you didn't see it coming

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