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EMPOWERING TIMES

THINKING ALOUD
An abused – and overused – term: Corporate Governance
Jay

PODIUM
Dr. Manoj Vaish
Corporate Governance Practitioner

WE RECOMMEND
Experimentation Works
Stefan H. Thomke

Dear Reader,

Corporate Governance has been a key topic of discussion in recent times and is under the scanner of many stakeholders. Corporate governance - the framework that defines the business relationships that exist between shareholders, management teams, the Board of directors, and other stakeholders - is today characterized by increasing pressure stemming from significant environment, social and corporate governance challenges.

The recent corporate governance fiascos in India, to name a few: the Tata-Mistry fallout, ICICI Bank-Videocon bribery case and the Satyam scandal bring out the significance of good corporate governance structures and the importance of making clear the lines of distinction between the Board of Directors and the management.

India Inc. has a long way to go especially as the pandemic challenges the long term growth and sustainability of corporates. This implies a greater role for Boards in monitoring companies' relationships with their stakeholders to ensure increased shareholder value.

ET this month looks at the **'The Quest for Corporate Governance'**. On the **Podium**, Corporate Governance Practitioner - **Dr. Manoj Vaish** shares his thoughts on the major changes on the corporate governance front in India and shares some pointers to ensure a balanced governance structure in companies.

While there is a lot of talk surrounding Corporate Governance, **Jay**, in the **Thinking Aloud** segment, looks at the various dimensions of this overused theme. In the **We Recommend** section, author **Stephan Thomke** in his book, **Experimentation Works**, urges readers to continuously innovate through business experiments to eliminate unfavorable business strategies and refocus on promising alternatives to drive profitable growth, create shareholder value and survive in an uncertain environment.

In **Figures of Speech**, **Vikram's** toon defines corporate governance!

Please also **Click Here** to check out our Special issue of ET, which is a collation of selected themes that were featured over the years highlighting the changing landscape of the business world. This special edition has been well received and can be **Downloaded Here** for easy reading and is a collector's item.

As always, we value your opinion, so do let us know how you liked this issue. To read our previous issues, do visit the Resources section on the website or simply **Click Here**. You can also follow us on **Facebook**, **Twitter** & **LinkedIn** - where you can join our community to continue the dialogue with us!

THINKING ALOUD

An abused – and overused – term: Corporate Governance

Jay

The holy grail of corporate governance is a chimera, many will tell you. These are spokespersons of the school of realism, claiming to tell you 'like it is, in the real world'. Behind closed doors where deals are struck and facades fall to reveal the true corporate selves, not the public relations fiction trotted out to the media, power play and vanities are in full display and here is where you discover that business leaders choose to exercise options that they believe is best for themselves, and not always in the best interest of minority shareholders. This is inherent to boardroom politics as the conversation is primarily about maximizing returns without totally failing the compliance tests. Ethical considerations are subjugated to the principles of legal rectitude - for what is legally correct is not necessarily ethically valid at all times.

Why then the paeans to corporate governance? There is a paradoxical behavior that most people display: they are often caught between the desire to do the right thing and the need to maximize their personal gain. So too in the corporate environment. Businesses set out to compete intensely and this unbridled competitiveness causes them to corner the market by creating disadvantages and hurdles in the path of their challengers. Customers are wooed both with the promise of a firm's product or service benefits and subtle reminders of the drawbacks from other market offerings. Veering between right and the terribly wrong, firms attempt to live by their professed values, which collectively in industry gets labelled as 'fair business practice'. Likewise, after many corporate hits and misses, governments across the world have realized that pure unrestrained laissez faire capitalism creates excesses that hurt the larger society, thus compelling governments to bring in regulations. By the time the ink on the regulator's books become dry, new market innovations will always spring up, ready to push the boundaries once more. And, the cycle continues.

The only justifiable and worthwhile supervision that can deliver good and consistent administration inside a company arises from internal checks and balances created by well-meaning and honorable leaders who are cognizant about the benefits of long-term wealth creation in a sustainable manner. This is essentially what good corporate governance is all about. When wise business leaders understand that a holistic picture is necessary then they take a systems view of an organization and the wider social, political, economic & environmental context is viewed through a longer lens of existence. The philosophy of a business is as important as the economics of it, particularly in today's world where transnational businesses have a huge impact on our lives. There are many examples that we have seen from the rise of the green movement globally to the pressure on governments against sweat shops in developing nations to the recent outrage expressed by companies against limitations on voting rights in Georgia state in the United States that are clear expression that corporations with a moral conscience are speaking up to live their values of integrity, diversity and non-discrimination. Of course, firms (and institutions) in India do not yet have the gumption to speak up against government policy or pressure (the recent case of academician Bhanu Pratap Mehta is yet another example of how indirect pressure can be forcefully applied by those in power) - as Indian businesses are too fragile in the face of big government. The reality is that lack of good governance is not exclusive to business alone.

The changing role of a corporation has consequently brought into focus the kind of members who populate the hallowed Corporate Board. From the days of rampant filial loyalty and rank cronyism we are moving to selection based on expertise and competence. The issue of gender diversity is also being addressed slowly after statutory compulsion, as is the category called Independent Directors. The recent move to have examinations for the role of the Independent Director is another step towards screening the quality of talent but it can hardly guarantee true mettle which is only visible under the pressure of Board performance. Be that as it may, the character test of Directorship can never be a paper qualification but is called into play when debates occur behind closed doors and dilemmas unfold when leadership calls are to be made. Whether it is in the case of private equity start-ups that flame out (think WeWork) or large corporations that have stumbled (think Enron or closer home, Satyam), a large share of the blame for corporate excess lies with the Boards where Directors were sleeping at the wheel. The tragedy is supreme when you find that history has repeated itself over and over again with every year bringing new cases of epic corporate frauds: take the emission cases of Auto firms (led by VW), and the never-ending financial scams perpetuated by large financial players (Wells Fargo in the US, and closer home, YES Bank, PMC-HDIL, etc.) to name just a few.

Companies claim that excessive regulations throttle their functioning, but the government is expected to douse the fires when customers are scorched by corporate cons. In its effort to bring in stability (albeit a relative one), the Securities & Exchange Board of India (SEBI), a government arm, has called for the delineation of the role of the Chairman and Managing Director in large companies. Debatable as the move may be, what is really necessary are active and responsible Board members who govern through sub-committees and oversee preventive measures on an on-going basis to eliminate process mistakes (which are not unlikely in growing firms) before they become too large as to short-circuit the corporation's total existence.

While risk is inherent to business, good governance is focused on moderating the play within tolerable limits so that the bigger purpose of the company (to all stakeholders) is not held hostage to either an individual's whim or to unforeseen elements that could cause an implosion ending their existence.

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Podium

Dr Manoj Vaish

Corporate Governance Practitioner

Dr Manoj Vaish brings a wealth of experience of more than 30 years in Financial & Capital Markets. After graduating from the prestigious Shri Ram College of Commerce, he completed his MBA (Gold Medallist) and PhD from FMS, Delhi University.

Dr. Vaish has held several prominent positions including Executive Director & CEO of Bombay Stock Exchange, President & CEO of Dun & Bradstreet India, Managing Director & CEO of NSDL Database Management Ltd. and Managing Director & CEO of MCX. Prior to this he has been with leading MNC Banks, Deutsche & ANZ Grindlays, in Treasury & Investment Banking.

He has served on several committees and Boards including SEBI's committee on Corporate Governance, Primary & Secondary Market Advisory Committees of SEBI, Working Committee of World Federation of Exchanges & South Asian Federation of Exchanges and Boards of GHCL, SBI Securities, Mirae Mutual Fund and BOI Shareholding.

Dr. Vaish has served on 30+ Boards in various capacities including Executive Director, Independent Director and Nominee Director. He has conducted more than 200 training programmes in Finance, Capital Markets, Risk Management and Corporate Governance.

ET: Actions of the Securities and Exchange Board of India (SEBI) have made corporate governance a buzzword. What are some of the major changes happening on the corporate governance front in India?

MV: SEBI has played a key role in building a Corporate Governance framework in India. One of key focus area has been on Independent Directors (ID) and the role they can play in ensuring good governance.

How do you ensure independence, if the Independent Director owes his position solely to controlling / majority shareholders? In a recent paper, SEBI has proposed that Independent Directors' appointment should have dual approval - "majority of all shareholders" as well as "majority of minority shareholders". This would ensure the required check and balance in appointment.

Another focus area has been the compensation of Independent Directors. Regulators seem to have taken a position that there is an inverse relationship between compensation and independence. I personally believe that independence is much more a personal trait and the ethical and moral beliefs and value system are more important than compensation. The debate is still on and SEBI has sought views on restricting cash compensation to IDs while allowing them ESOPs, which is completely opposite to their existing position. Paying enough to encourage capable persons to take up the risk and challenges of the ID position, without compromising his/her independence would continue to get much attention.

Historically and currently the Boards have been male dominated. Most Boards have been all males with a few having one or two women as members. Recent regulations have ensured that Boards have at least one women member. This I believe is much needed and we need greater gender balance than what is currently seen.

Recent introduction of "Qualifying Exam" for Independent Directors was another novel step by Ministry of Corporate Affairs (MCA). There has been some opposition, though I fully support this, in spite of the fact that the current training modules and examination system needs a huge up-gradation.

Quite a few changes have been brought in the role of Board committees. They have been given more power and more responsibilities. The expectations from the committees and non-executive Board members is too high considering they only meet about 4 times a year and have serious information dissymmetry vis-à-vis executive directors.

ET: In recent news, there has been a debate on separating the CEO and Chairman roles. What is your take on this?

MV: I strongly support this step. CEO reports to the Board of Directors. If the CEO is also the Chairman of the Board, there is an inherent conflict of interest. To ensure a check and balance in the decision making and governance structure, it is important that the Chairman is someone other than CEO.

It must be ensured that the Chairman does not get into day to day management, and leave that to the CEO. The Board as a whole must be responsible for guiding and supervising the CEO and not necessarily the Chairman in his individual capacity.

An all-powerful Chairman & CEO, with absolute concentration of power, may run the company as his own personal fiefdom and we have seen enough examples of that with disastrous consequences for the company and its stakeholders. "Power corrupts and absolute power corrupts absolutely".

ET: Today, investors are stressing on the need & importance of implementing environmental, social and corporate governance (ESG) principles while operating businesses. How has India Inc. fared in this regard?

MV: ESG refers to the three central factors in measuring the sustainability and societal impact of a company. The question is, to what extent these factors determine the future financial performance of the company?

Investors are increasingly giving more importance to ESG in their investment decisions. The investment though is still mostly based on total return expectation, in which ESG plays a role, rather than solely on ESG. Mutual Funds and Asset Managers recently have been offering ESG themed products. These are all at the nascent stage and we should see much more developments in this space.

Several rating agencies have come forward in quantifying the ESG status. They will play an increasingly important role. Currently, they use their own sets of metrics with no industry wide set of common standards. I expect these to evolve over time where companies give real focus on these criteria.

ET: The role of Independent Directors has been intensely debated in recent years. You have not only played this role but as a former CEO of the Bombay Stock Exchange seen instances where things have gone amiss. In your opinion, how can Independent Director raise their effectiveness?

MV: Keeping oneself updated on the business of the company and the environment that affects it is the starting point. This learning is a continuous process. The learning should also cover regulations, basic finance and risk management.

Reading the agenda and coming fully prepared for the meetings is necessary. More often than not, one sees inadequate preparation by IDs for the meetings.

IDs must actively seek information and ask questions - including tough ones. Being a "nice guy" and avoiding any conflicting view and statement can reduce the effectiveness of the ID.

IDs meet only a few times a year. The most important tool in their hand to increase their effectiveness is the use of external auditors and external consultants. These must be appointed by committee or Board directly, with well-defined scope of work and compensation determined directly by the committee / Board. The report of the auditor / consultant must also be submitted to the committee / Board and not to the management.

ET: What is your advice to leaders to ensure a proper balanced governance structure of their companies?

MV:

1. Create a Value system in the Organization that establishes, promotes and nurtures good governance practices. Reinforce by own behaviour. Reward merit.

2. Have a well-balanced Board. While Knowledge, skill and experience in Administration, Finance, Audit/Tax and Law will always be required, the future world needs much more - specially in technology (digital world / AI), Risk Management (cyber security), Marketing (Social Media) and so on.
3. Have a well laid down structure of policies and procedures to increase effectiveness of execution. There will always be an unstructured part of execution. Continuously giving it a structure without creating rigidity and bureaucracy is necessary.
4. Have a strong review and monitoring system. Use Audit and other committees of the Board to enhance efficiency.
5. Engagement with the key stakeholders - employees, investors, regulators, etc. would give clarity and help in decision making.

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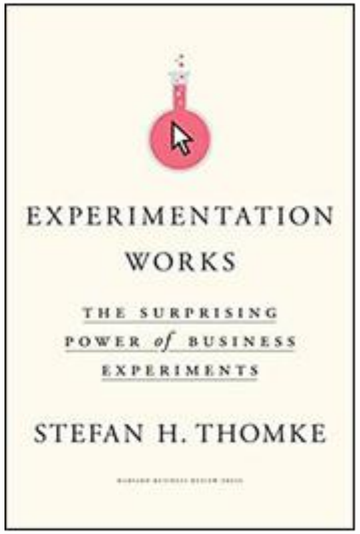
We Recommend

Experimentation Works
Stefan H. Thomke



The author first published 'Experiments Matter: Unlocking the Potential of New Technologies of Innovation' in 2013, a book which predicted that digital experimentation not only had the potential to revolutionise a company's R&D, but that they could transform industries by experiments and innovation. Stefan Thomke, a leading authority on the management of innovation, has underlined one key message in his book, 'Experimentation Works' - "experiment with everything." Through countless case studies, the author gives readers a preview of the importance of an experimenting organization that is innovative and future ready.

So why experiment? Peter Drucker once noted that every business leader will have to answer the inevitable question - "What does your customer value?" The answer to this question does not alone come from imprecise & slow research methods. It comes from inexpensive, large scale experimentation which have scientific precision to enable companies unravel what their customers truly value.

Experimenting is crucial to innovation. With frequent experiments, the chances of failing are high. Case in point: only 10-20% of Bing's and Google's online experiments generated positive results. However, these early failures are necessary (and should not be confused with mistakes), to eliminate unfavorable options and refocus on more promising alternatives.

Drawing from Newton's third law of motion where every action has an equal and opposite reaction, the author agrees that becoming an experimentation organization will cause friction, and for every action there will be an opposing reaction. The author introduces the *Seven system levers* as a first step towards becoming an experimenting organization - Scale (number of experiments per week), Scope (how involved in experiments are the employees), Speed (time from hypothesis formulation to experiment completion), Shared values (Behavior and judgment that facilitate experiments), Skills (competencies needed to design, run and analyze experiments), Standards (what are the quality check criteria that facilitate trust), and Support (how much technical help, training and managerial support is available).

The author offers some key insights into making an organization more experimenting in nature whether it is a digital company or not, irrespective of the type of customers they cater to: Awareness that business experiments matter to innovation; Belief: management accepts that a more disciplined approach to establishing cause and effect is needed; Commitment: management pledges to make experimentation core to learning and decision making; Diffusion: the realization that large-scale testing is key to having a business impact and; Embeddedness: where disciplined business experimentation becomes deeply rooted and democratized.

Managers who aren't aware of the power of business experiments and the true benefits of business experimentations have given rise to seven myths that undermine innovation. The book covers these seven myths and ways to turn these myths into facts that can work.

The key takeaway of the read is to implement experimentation and make it a part of the company's culture. Stefan Thomke chairs Leading Product Innovation, which helps business leaders revamp their innovation system for greater competitive advantage. His research skills shines throughout the book and hopes to drive home the benefits of becoming an experimenting organization.

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THROUGH THE LENS

A picture of the migratory Northern Lapwing was captured by our in-house nature photographer, **Rupesh Balsara** on his latest trip to Northeast India. Wintering in northern India and parts of China, these birds are openly seen in grasslands and wetlands feeding on earthworms, moths, beetles, ants, flies, frogs, small fish, seeds and other plant material. Sport-hunting, wetland drainage, pollution of wetlands with harmful chemicals are the main threats that endanger this species.

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