ISB Executive Education

The Board's

LOOKING GLASS

2024

ISB Executive Education Corporate Governance Report

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ABOUT THE AUTHORS

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The founding editor-in-chief of Accounting Theory and Practice, a journal focused on India, Sanjay Kallapur is a professor of accounting at the Indian School of Business. He teaches and researches financial and managerial accounting, auditing, corporate governance, and risk management. The American Accounting Association recently published his monograph on scientific inference in accounting research. He instituted the PhD-equivalent Fellow Programme at ISB and has placed his students in faculty positions at prestigious schools such as the London School of Economics, IESEG Paris, Aalto University, Rochester Institute of Technology (USA), and Universities of Queensland and Western Australia.

He was the first person from outside North America to be appointed as editor of the prestigious Accounting Review (2008-2011). He is a part-time member of the National Financial Reporting Authority (NFRA), the regulatory body overseeing the accounting and auditing of listed companies in India. He is an independent director on the Board of IDBI Bank and has previously served on the Board of LIC of India.

Professor Nirmalya Kumar

One of the world's leading thinkers on strategy and marketing, Nirmalya Kumar is the Lee Kong Chian Professor of Marketing at Singapore Management University and Distinguished Fellow at INSEAD Emerging Markets Institute. Earlier, besides heading the strategy as member of the Group Executive Council at Tata group, he was Professor of Marketing at London Business School and also taught at Harvard Business School, Kellog, IMD (Switzerland), and Columbia University.

As a consultant and coach, Nirmalya has worked with over 50 Fortune 500 companies in 60 countries. He has served on several boards of directors, including ACC, Bata India, Tata Chemicals, UltraTech Cement and Zensar. He is a much-cited author of eight acclaimed books and multiple articles in Harvard Business Review and several other leading academic journals.

Harish Raichandani

A business coach, OD catalyst, and corporate governance steward, Harish is an adjunct faculty at ISB. He is the Chairman & founder of Potentia (www.potentia.in), works with upper echelons to catalyze organizational transformations, and steers Board Evaluations (www.fidemboards.com). He strives to improve Boardroom chemistry and coaches organizational leaders. As a catalyst for and architect of OD interventions, he is sought for elevating business performance, shaping an enabling culture, and strategic HR. He teaches Corporate Governance and Business Ethics courses to MBA students. In executive education, he teaches leadership courses such as Emotional Intelligence, Positive Psychology, Achievement Orientation, Growth Mindset, Leading Change, Stakeholder Management, Conflict Resolution and Negotiation.

Madan Pillutla
Dean, Indian School of Business

FOREWORD

“When corporate governance lapses become daily headlines, it’s a clear signal for the board of directors to introspect. The time for action is now.”

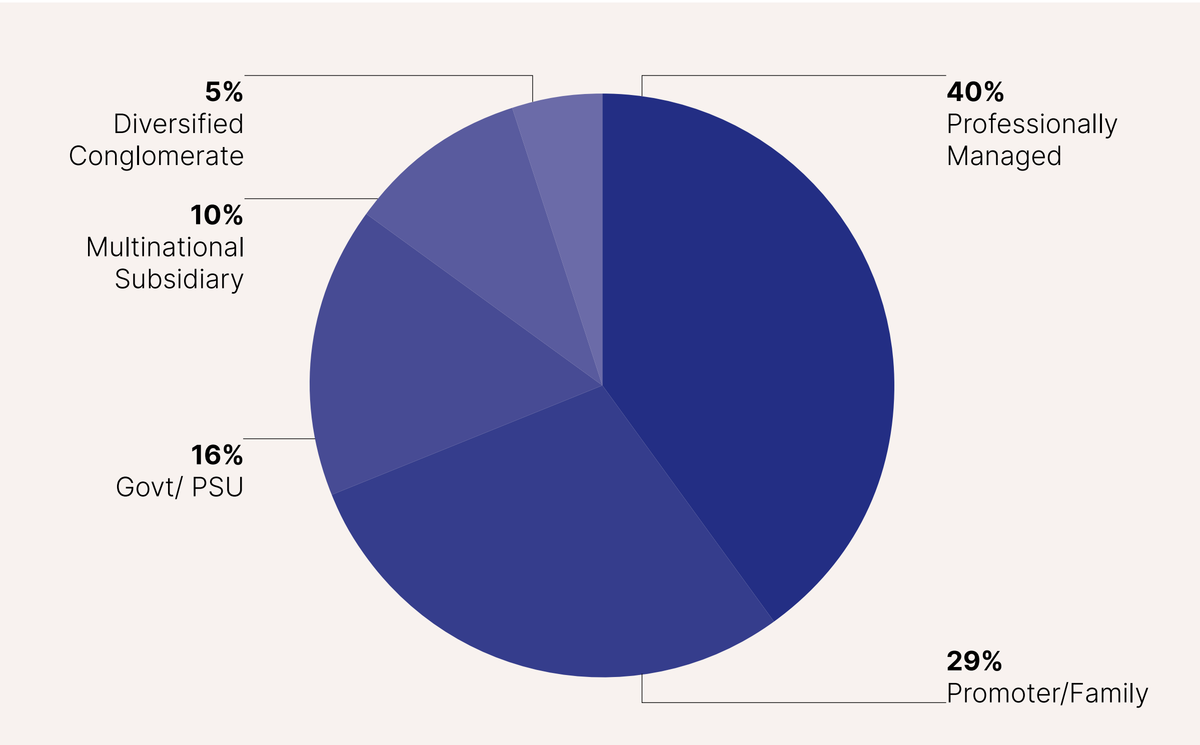
Corporate governance is the cornerstone of sustainable business practices and long-term value creation. Indian boards face unique challenges shaped by a complex regulatory environment, diverse corporate structures, and evolving stakeholder expectations. Navigating these challenges requires data-driven insights and a commitment to continuous improvement.

The Board’s Looking Glass 2024 provides an in-depth analysis of governance practices across Indian corporations. Through an extensive survey of board members, this report sheds light on the strengths, gaps, and opportunities within boardrooms. We hope that this report serves as a catalyst for dialogue, reform, and proactive governance. By embracing the insights and recommendations within, we can collectively work towards stronger boardrooms that are not only compliant but also forward-thinking and impactful.

At the Indian School of Business (ISB), we are dedicated to advancing management practices through rigorous research and actionable insights. This report exemplifies that mission, offering empirically grounded perspectives that bridge academic theory and real-world application.

INTRODUCTION: A WINDOW INTO INDIAN BOARDROOMS

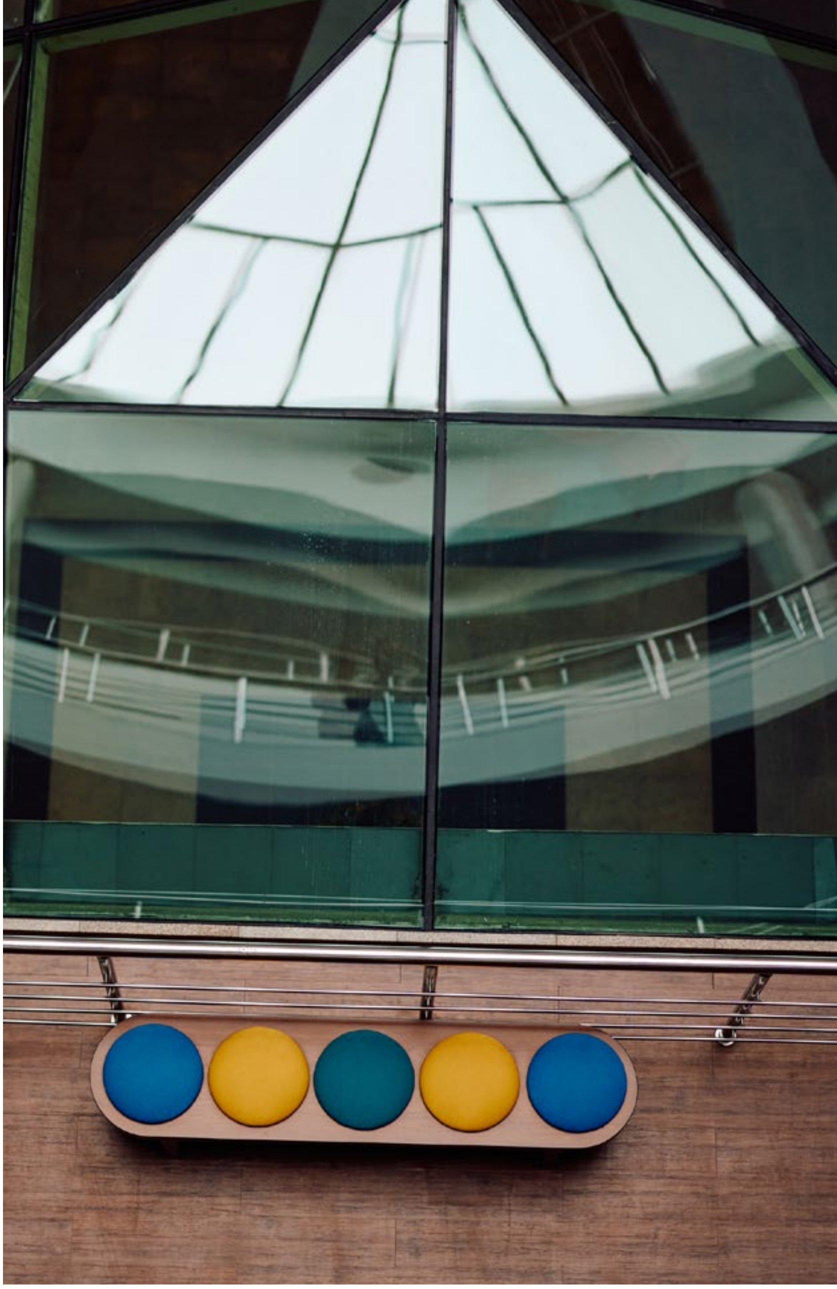
This first edition of **“Insights from the Inside: India Corporate Governance Scorecard 2024”** provides a peep into the black box of Indian boardrooms. Conducted with over 1500 invited directors from BSE500 companies and responses from 181 board members, this study provides a comprehensive view across diverse organizational structures, including family-owned businesses, public sector undertakings, and multinationals.



Survey Breakdown

The 55 questions covered three key dimensions: Guidance and Oversight, Board Functioning, and Leadership. The parameters under Guidance and Oversight included Risk, Strategy, and Executive Performance. Board Functioning included board's Time Utilisation, Composition and Structure, Culture and Boardroom dynamics, Director Initiative and Director Engagement.

In the study, captains of Indian industry, chairpersons of the Boards, and policymakers will find clues to infer corporate governance signals. Individual directors will find insights to reflect on their styles and enhance board contributions. CEOs will spot the untapped potential of the board, which may remain under-leveraged by their companies.



India Corporate Governance Study Dimentions

1

Guidance and Oversight
- Risk
- Strategy
- Executive Performance

2

Board Functioning
- Time Utilisation
- Composition and Structure
- Culture and Boardroom Dynamics
- Director Engagement
- Director Initiative

3

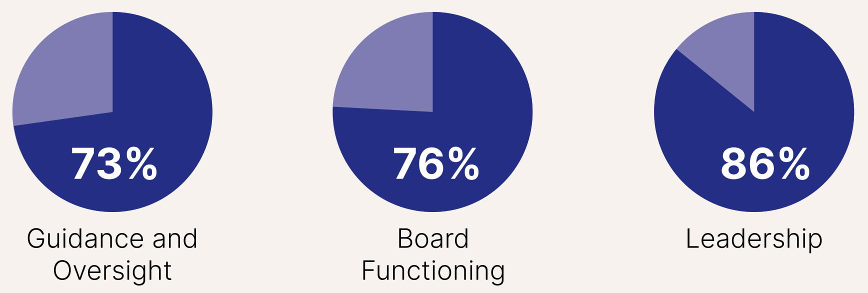
Leadership

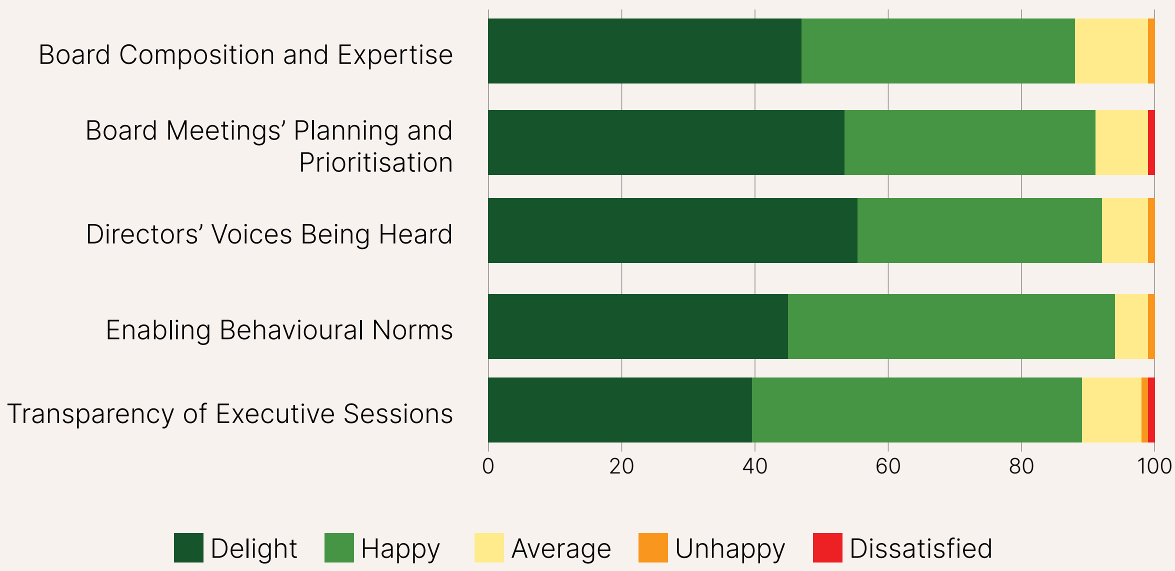
PRAISEWORTHY PERFORMANCE

Given the contemporary demands for more strategic, engaged, and introspective boardroom functioning, the health and robustness of corporate governance in India reveal a satisfying picture. The index values, which scored 70+ across leadership, oversight, and board functioning, paint a promising image of solid governance.

One also finds near-perfect scores on several other often-debated indicators. As the picture below shows, responses to several questions under Board Functioning indicate a healthy and mostly-green board performance.

However, beneath this surface lies a more complex narrative. While external performance indicators appear satisfactory, deeper insights into directors' autonomy, independent thought, and engagement beyond meetings reveal vulnerabilities in the governance ecosystem.

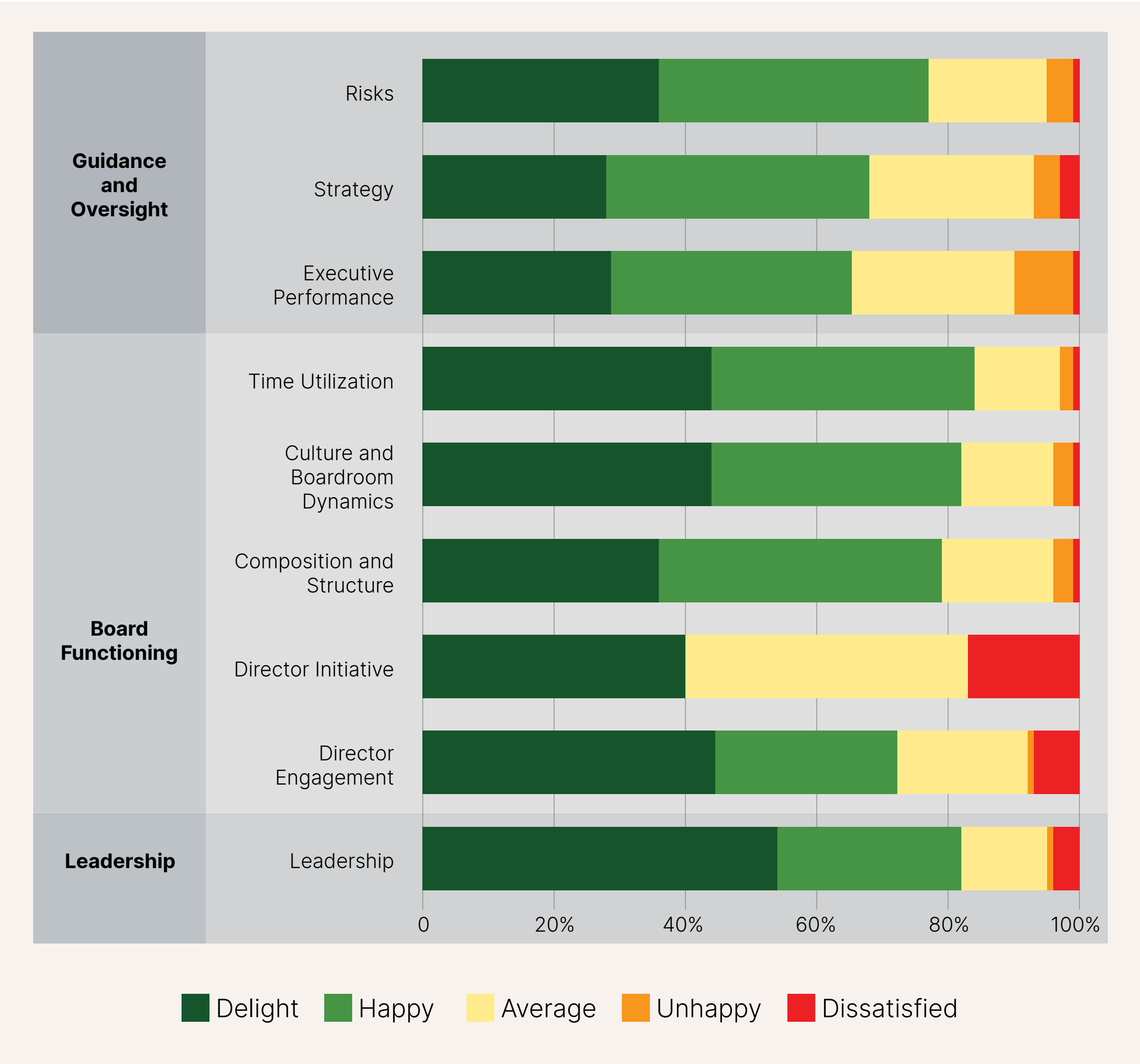




LIFTING THE VEIL

Amidst the dominance of green results, the complexity that lies beneath the surface is revealed in larger areas of red, orange, and yellow under different parameters across the three dimensions:

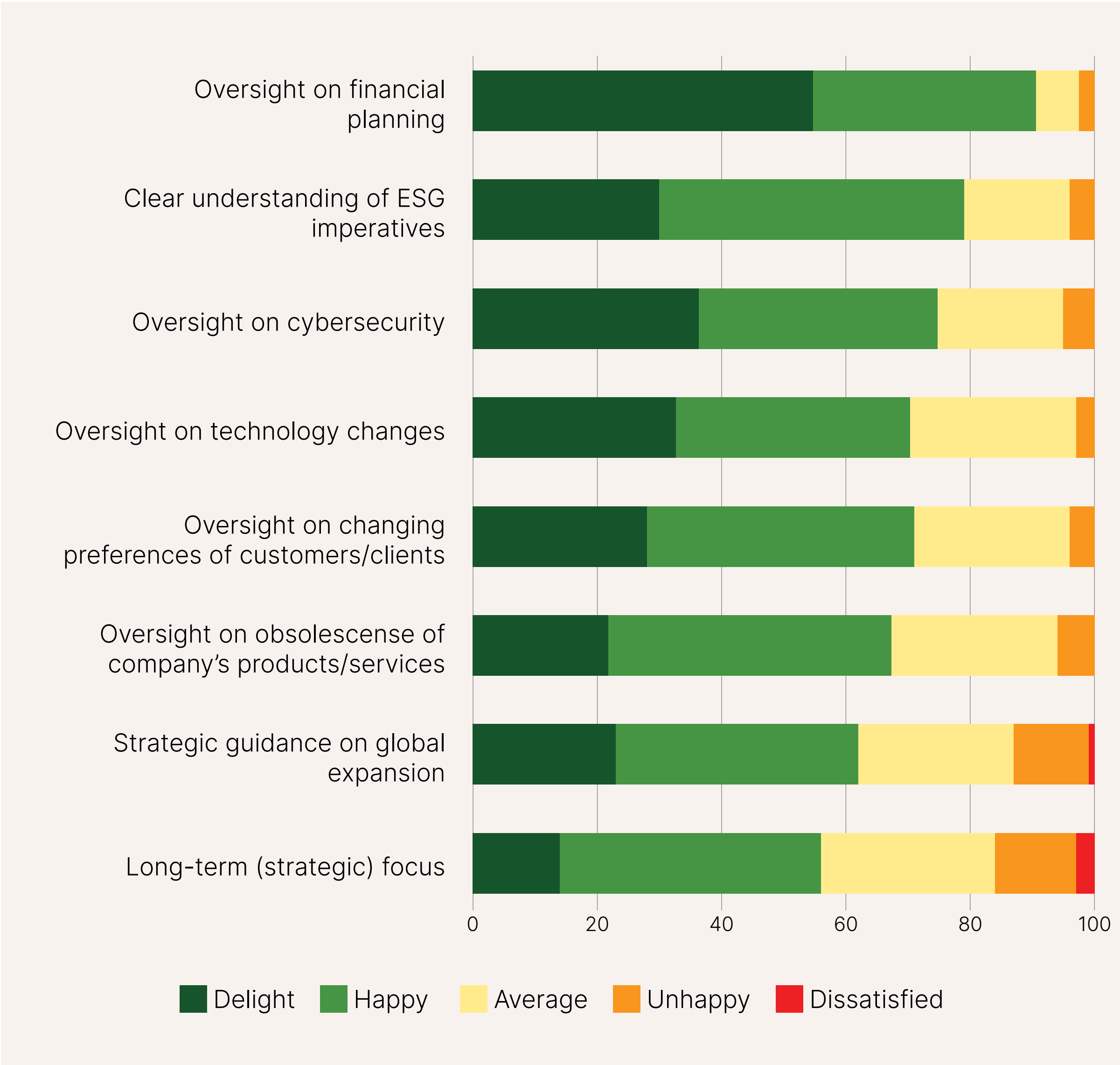
For instance, Director Initiative, which drives the substance of board contribution to company performance, is only 40% green. Similarly, more than one in 4 directors are insufficiently engaged (only 73% green). In other indicators of substance, under Guidance and Oversight, directors' assessment of their contributions to all three parameters has room for significant improvement: risk (77% green), strategy (68%), and executive performance oversight (66%). The large non-green parts in these areas of substance contrast with large green parts in parameters such as time utilization, indicating that form rules over substance.



PSUS IN PERSPECTIVE

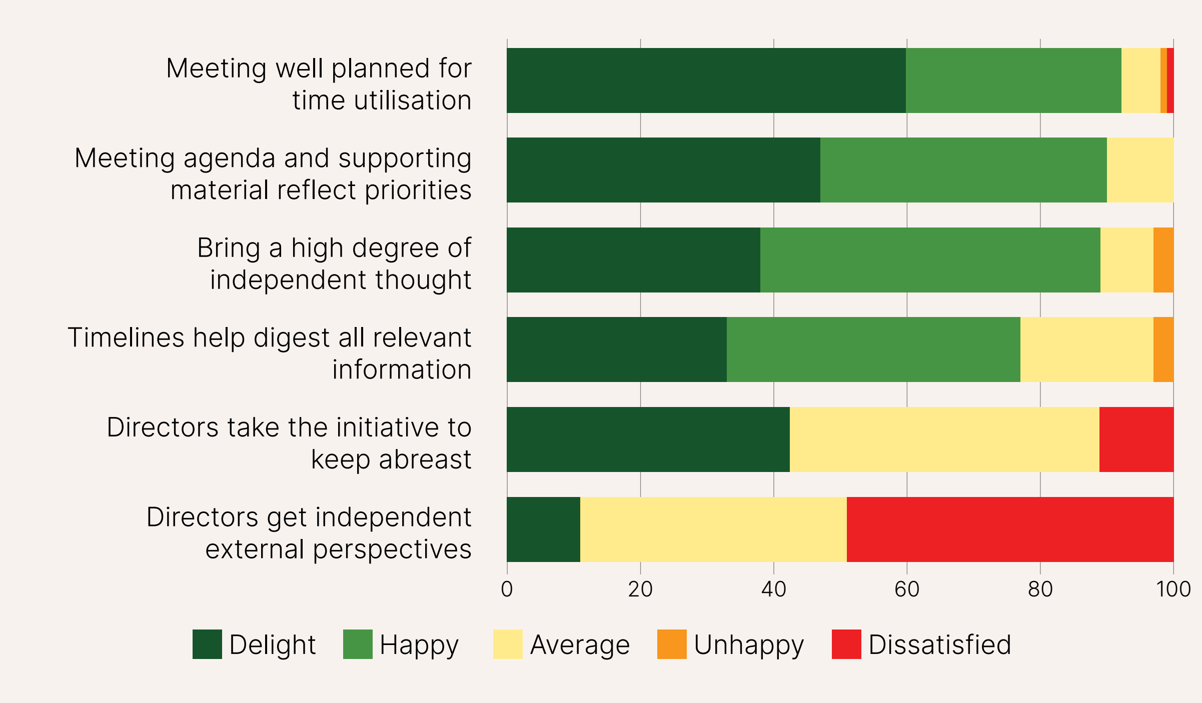
The study reveals that PSU boards consistently underperform across all parameters, highlighting an urgent need for reform. A director quipped, *"Lock, stock, and barrel change in the PSU Board Members and CEO selection process through PESB."* Priorities include strengthening governance, fostering excellence, and increasing board autonomy. Improving PSU board performance is crucial for unlocking the potential of state-owned enterprises and boosting national economic development. The suggestion to start with the selection process could only be a start, as one reads another director's voice, *"Selection process of the board is suspect and the main reason for sub-optimal performance. Also, evaluation of the performance of the PSU is wishy-washy."*

The individual questions under the parameters representing two of the most sought-after contributions from the Board, Strategy Formulation and Risk Mitigation, raise concerns as can be seen from the following infographic.



"Risk Management is an area where the Board / Management conversations are mostly routine. The Boards need to be more proactive in this area and spend more time assessing the risks and effectiveness of the risk mitigation plans."

-- A director's voice on risk oversight



Authors' Take

Often, the regulatory remedies for improving corporate governance include introducing more rules, seeking compliance by Boards, and, in turn, introducing an even higher number of boxes to be ticked during the Board meetings. An ever-increasing time dedicated to compliance matters diverts the attention of boards, and actual value addition on these two (risk and strategy) crucial aspects remains elusive.

Survey analysis reveals that the board meetings are planned well, information provided by management is adequate and enough time is devoted in the boardrooms. While much time is consumed for adherence to compliance protocols, directors' initiative to keep abreast of the latest developments and their ability and willingness to bring in independent external perspectives are lacking (see infographic). These missing characteristics raise doubts about the essence of board independence and the efficacy of independent directors.

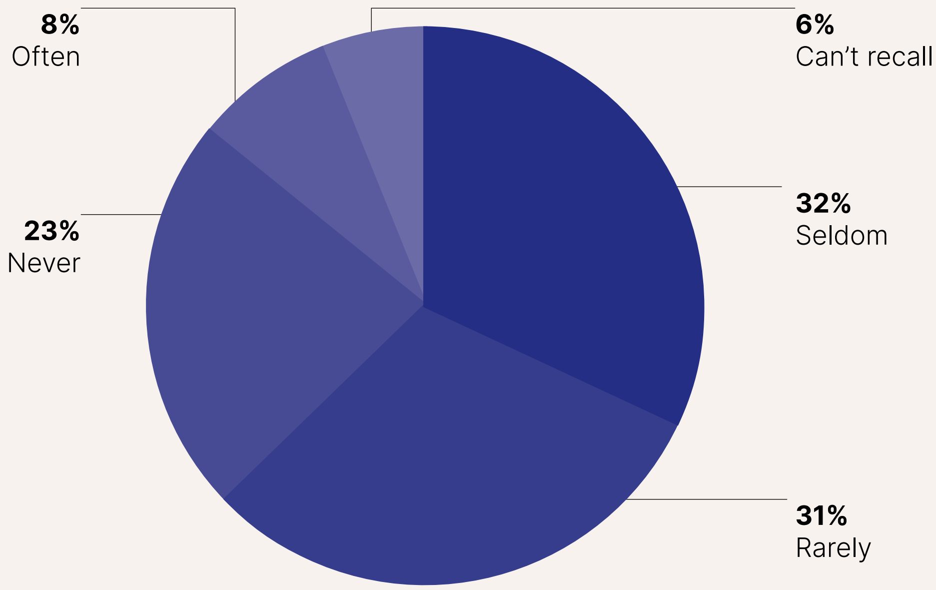
The independence of Directors has been questioned for not just for PSUs but the non-PSU companies as well. A director voiced in survey, "*...First issue should be the actual independence of Directors and if they have the ability to oppose what the individual promoter wants ...they have to fall in line with the diktat...*"

-- Independence of directors

Another survey statistic that raises a question about the degree of director independence is that they rarely evaluate CEOs unfavourably.

Unfavourable CEO Evaluation

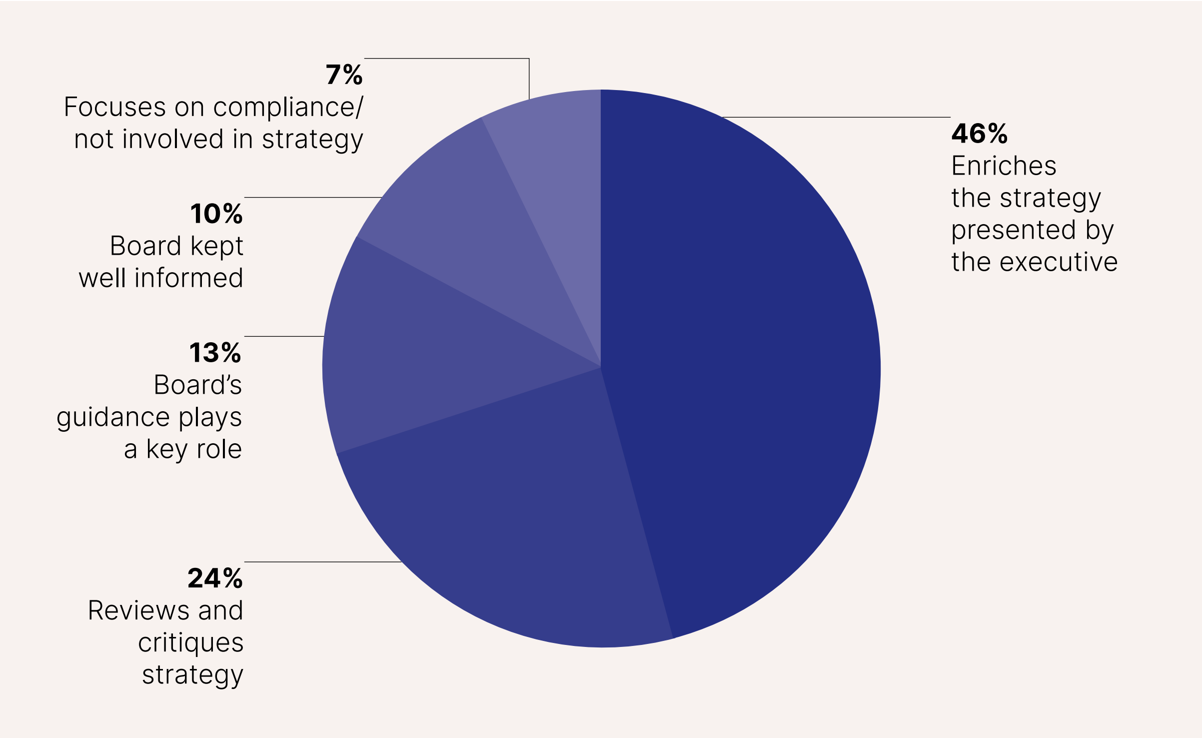
How often has the CEO been provided what may be perceived as an unfavourable performance evaluation



"In most Indian boards, dissent is rare and seldom paid heed to. Governance, therefore, is a key risk."

-- Voice of a director

The focus on compliance and missing efficacy characteristics of independence overshadow the Board's involvement in the company's strategy formulation. Only 13% of directors believe their boards play a crucial role in strategy formulation (refer pie chart). This imbalance may detract from the board's potential to contribute to long-term strategic planning. The majority believe the board enriches, critiques, or is informed about strategic changes rather than actively shaping them



"Allocation of time between compliance-related matters and other strategic/operational matters from which the company could benefit from the Board's mix of expertise and experience. Many Board meetings appear to be largely compliance-driven."

-- Voice of a director

Authors' Take

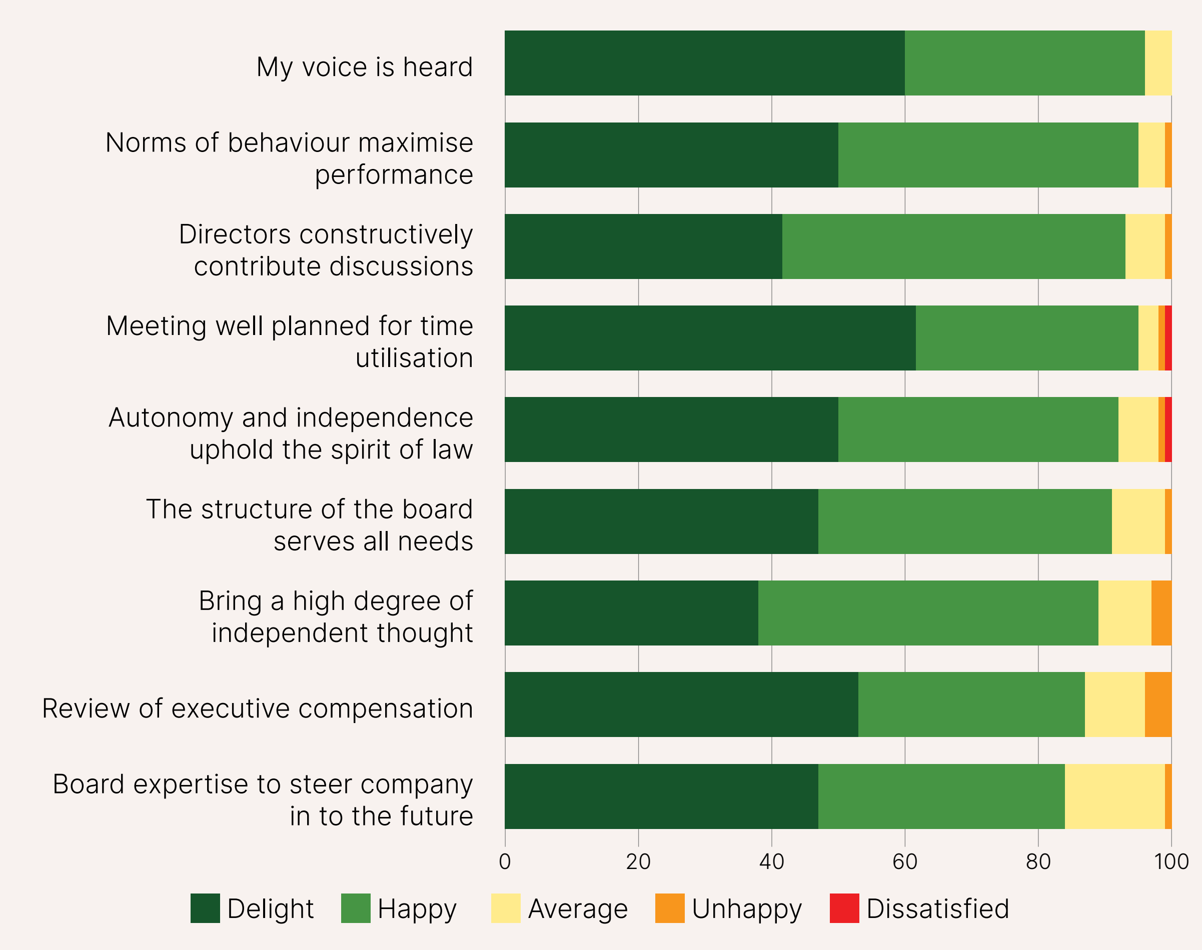
Insights from this report warrant a serious introspection.
All the reflection and scrutiny by regulatory and industry bodies occurs only when a high-profile corporate governance failure surfaces. Amidst the din of speculation by media, we often miss the root cause – the Board's perfunctory performance on the two crucial aspects, risk mitigation and role in strategy formulation. Responding to our study, a director aptly commented.

"Many recent cases have shown that having an illustrious Board is not enough unless they are truly weighing in on important issues and standing up with independent views that may not be aligned with CEO/CMD. There is a tendency to bring proposals to the Board that are fully baked in and already committed to – a fait accompli."

-- A director echo

WHAT THE BOARD'S GOT RIGHT

The boards demonstrate high consensus on several key aspects of corporate governance which indicate strong foundations on a few aspects. These include the importance of regular compensation reviews, board structures, well-organised meetings, time devoted, and director participation in board meetings. When most board members feel they have a voice, are heard, and respect each other's credentials, it creates an environment conducive to open and constructive dialogue among board members. The boards also strongly agree on the need for autonomy and independent thinking among directors, policies for new director integration, and ongoing training.

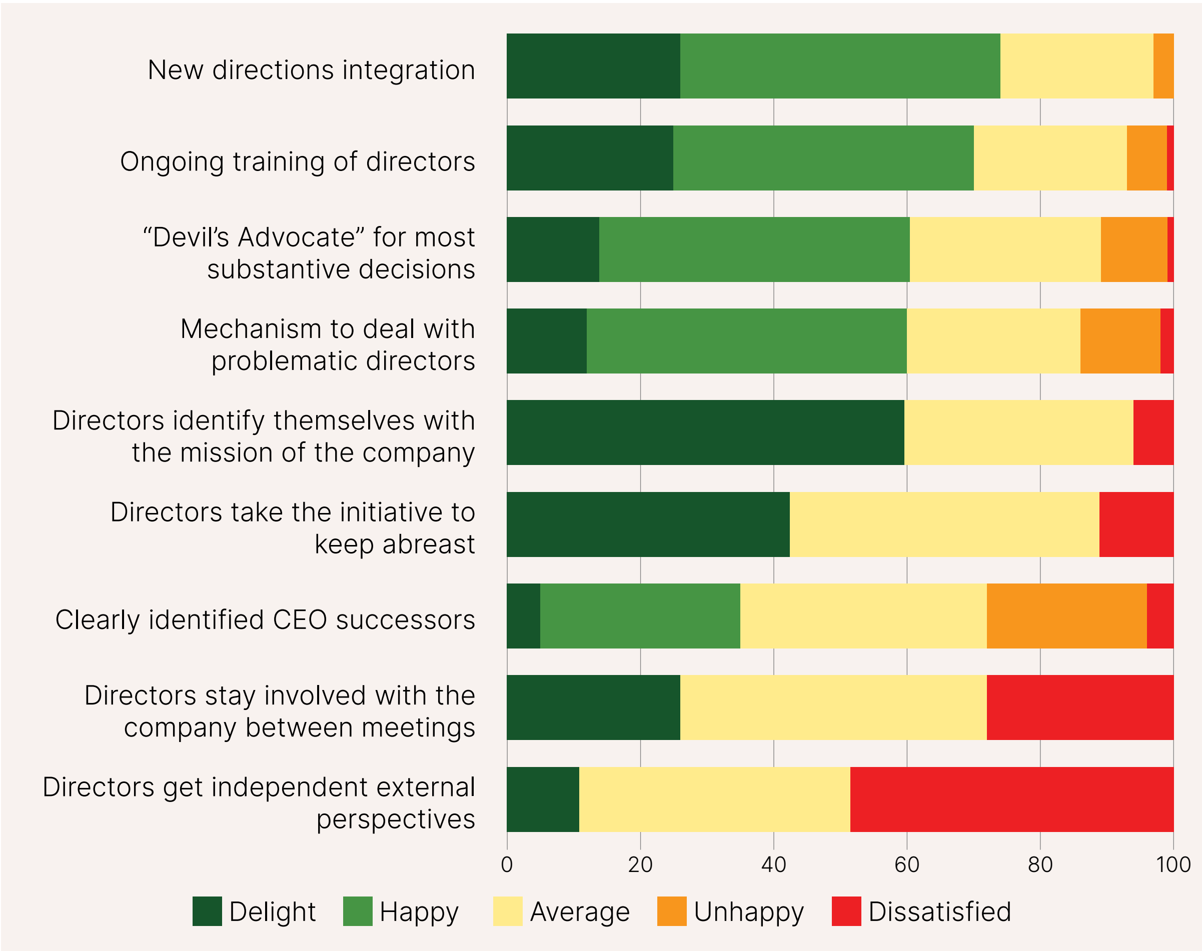


Authors' Take

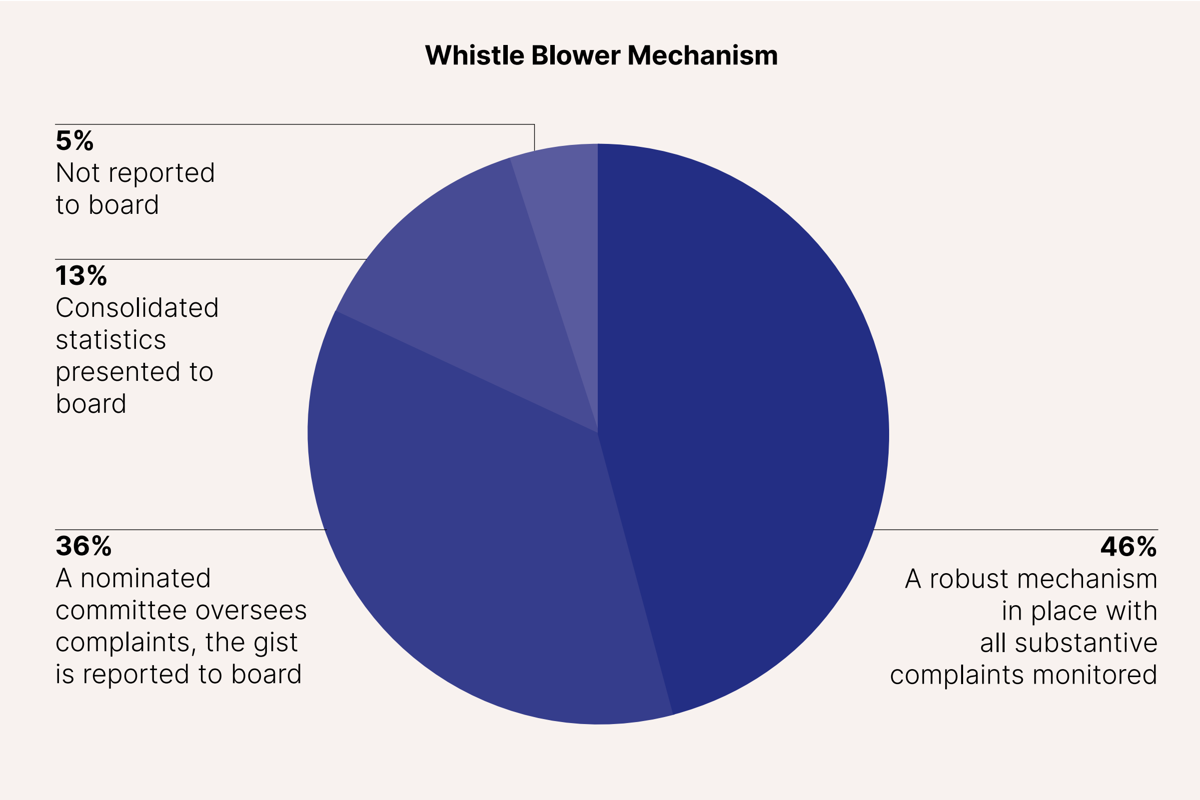
By creating a culture of mutual respect and inclusive participation, boards have established a foundation for effective governance. This collaborative dynamic helps directors leverage their collective expertise, benefiting companies through oversight and guidance. However, we need to move beyond the baseline. The surest way to move in that direction is to examine the blinkers that directors seem to carry. As one director asked, "Why is it that despite being highly qualified members of the Board, companies fail so miserably?"

REMOVING BLINKERS: TOWARDS BETTER GOVERNANCE

While the board fosters open dialogue and achieves consensus during the board meetings, the areas for improvement include engagement between meetings, keeping abreast of industry and consumer trends, and seeking independent external perspectives. These can enhance objectivity and truly catalyse the oversight mechanisms to greater effectiveness, paving the way for risk mitigation, strategic guidance, and accountability by the Boards.



Analysis reveals that boards excel in areas directly benefiting their experience, such as compliance and ensuring a harmonious CEO relationship. However, they hesitate to delve into areas that might provoke tension, like providing critical feedback or enhancing whistleblower practices which appear to escape detailed board scrutiny in one out of five companies.



Authors' Take

Effective governance requires deep engagement, even in challenging areas, to ensure comprehensive oversight and direction. An insular approach, limited engagement, and hesitancy to offer constructive feedback hinder risk foresight, accountability, and progress. Integrating diverse external perspectives and fostering frequent, meaningful interactions could enhance governance effectiveness. This shift would empower boards to proactively address challenges and guide long-term strategy. Ultimately, these changes would maximize organizational performance by leveraging the board's collective expertise more effectively.

CONCLUSION: EMBRACING A PROACTIVE GOVERNANCE MODEL

Given the rapidly changing governance scenario and increased stakeholder demands on the boards, it's time directors shed their inertia and proactively focus on high involvement in strategy. As governance demands evolve, boards must transition from passive oversight to active engagement in strategic planning. Directors should seek independent industry insights, challenge assumptions, and drive value through their collective expertise and not remain solely dependent on management briefs. By fostering deeper engagement and integrating external perspectives, boards can shift towards a more effective governance model, ensuring better oversight and contributing to long-term success.

ANNEXURE 1
SURVEY QUESTIONNAIRE

S. No	Survey Question	Effectiveness Index*
1	Board meetings are well planned and organised for effective time utilisation	88
2	Discussions in board meetings are open and candid	85
3	The agenda topics and materials accurately reflect board priorities	85
4	Timelines followed by this Board allow time to digest all relevant information for thoughtful deliberations	78
5	The board allocates sufficient time to discuss strategy	75
6	The board has clearly established milestones to track strategic accomplishments	73
7	The board provides strategic guidance on:	
	a. M&A proposals/ opportunities	75
	b. Global expansion	68
	c. Innovation	70
	d. Technology	70
8	How would you evaluate the time horizon focus of your Board	63
9	Our Board's risk management oversight for the below areas is effective:	
	a. Obsolescence of Company's product/services,	70
	b. Changing preferences of Customers/clients	73
	c. Technology changes	75
	d. Statutory Compliances	90
	e. Cybersecurity	78
	f. Financial Planning	85
10	Our Board's composition is a testimony of diverse expertise equipped to steer the company into the future	83
11	The structure of the Board (committee and leadership) fulfils the full scope of Board work	85
12	The Board Chairperson is an effective leader	88
13	The Board and CEO are aligned on strategy	85
14	The Board’s nonexecutive directors are aligned on strategy	80
15	Which of the following is an apt description of the Board’s involvement in Company strategy	SQ**
16	The directors contribute constructively to board discussions	85

S. No	Survey Question	Effectiveness Index*
17	The acceptable norms of behaviour on our board support maximising our performance	88
18	Board members respect each other's views	95
19	Directors come well-prepared and informed for the Board / Committee meeting(s)	83
20	Directors on this Board stay current/ updated about industry trends and changes in the landscape	70
21	Directors stay involved with the company between meetings	50
22	At least one of the directors plays a "devil's advocate" role for most substantive decisions/ choices exercised by the Board	65
23	How would you describe the working synergy or relationship between Executive Directors and Independent Directors?	SQ
24	The exercise of autonomy and the role played by independent directors uphold the spirit of law	85
25	The integration process for new directors is comprehensive and effective	75
26	Our board takes steps to educate/ train directors and keep them updated on risks and regulatory/ industry changes	73
27	Our Board directors are evaluated for their contributions and value addition towards Board's effectiveness	78
28	My fellow directors take the initiative to keep abreast of industry trends, best governance practices, and changing stakeholder preferences	65
29	Our Board has a clear understanding of ESG imperatives for the company	75
30	We have a clear plan of action to meet/ exceed ESG obligations	73
31	The executive sessions of this board candidly discuss all the contentious issues	80
32	The whistle-blower mechanism can be described as	SQ
33	My colleagues on the Board bring a high degree of independent thought (independent from management as well as fellow directors)	80
34	The Board has a mechanism to effectively deal with problematic directors (e.g. domineering, disruptive, asserting personal agenda, or freeloaders)	65
35	My fellow directors seek information from independent sources to aid in their deliberations on agendas proposed by the Executive Management	48
36	The CEO-board relationship sets the right tone for the company	85
37	The CEO communicates and consults with the Board in an appropriate and effective manner	83
38	CEO/ Executive compensation mechanism is reviewed and approved by the Board/ Board's Committee comprising of Independent Directors	85

S. No	Survey Question	Effectiveness Index*
39	The Board ensures that the company has a robust process for identifying next-generations leaders	68
40	We have a good framework for the CEO's performance evaluation	78
41	Over your term, how often has the CEO been provided what may be perceived as an unfavourable performance evaluation	SQ
42	The board has a clearly identified pool of possible CEO successors (internal/external)	53
43	Directors of this company identify themselves with the mission of the company and display personal alignment	78
45	My fellow directors get independent external perspectives by directly contacting stakeholders	30
45	My voice is heard by this Board	90
46	Which of the following, if addressed, would further increase our Board's Effectiveness	SQ
47	To reflect the true picture of corporate governance in India for aiding the Directors/ Policymakers, which other theme should we be asking/ researching (Optional)	Open-ended

** SQ – Special Question – these do not follow a Likert scale; they are probing questions. Index is not applicable here.

*Effectiveness Index: To convert Likert scales into a composite score that can help a reader infer the survey results, we did the following:

A single number provides a measure of the Governance Effective Index (EI) ranging between 0-100, conveying the degree of satisfaction against each statement. Zero (0) would indicate all the directors evaluating the statement at the least desired choice, and 100 would indicate all directors evaluating that statement at the most desired choice. To arrive at this, we took cognisance of 4 (four) intervals in our 5-point Likert and used the following formula to yield the index values.

$$\text{Effectiveness Index} = \frac{\text{Weighted average - 1}}{4} \text{ X 100}$$

An example is given below

Statement	No of Responses					Total no of respondents	Weighted Average	Values Formula	Index
	Strongly Disagree (1)	Disagree (2)	Can't say (3)	Agree (4)	Strongly Agree (5)				
Board meetings are well planned and organised for effective time utilisation	1	1	10	59	110	181	4.5	$\frac{(4.5 - 1)}{4}$ X 100	88

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