Emerging role of boards and challenges of leadership

Dr.A.K.Khandelwal
Former Chairman & Managing Director of Bank of Baroda and author of Best-selling "Dare to Lead".

All chief executives today have a TV screen in their plush offices and practically all of them watch one or the other business news channel muttering performance figures of different companies, CEOs and CFOs showing their lung power in assuring their investors as to how the next quarter will be better than the present one. Come season for quarterly results and you are bombarded with company figures on performance on various parameters. CEOs rush from one channel to another to talk about their performance and the market swings in tandem with the achievements in comparison to guidance provided in the previous quarter. This is almost the trend. Interestingly there is hardly any discussion centering around any long term issues like building human capital, culture, governance, leadership bench strength, innovations etc. It's all about short term.

Long term investors are interested in the long term vision of the company and they would certainly like to know the various steps that are taken by the company to build a culture of sustainable performance. However, no one seems to bother.

Brooker Institute, US Research concludes that atleast 50% of the market capitalization is contributed by the intangibles. In a recent study by McKinsey, points out that the competitive advantage of the 21st century is increasingly derived from hard to copy intangible assets such as Company culture and leadership effectiveness. In a seminal work, Scott and Colin of McKinsey pointed out that focusing on performance is not enough and can even be counter-productive. They argue that leaders of successful and enduring companies make substantial investment not just in near-term performance related initiatives but in things that neither have a clear immediate benefit nor any caste-iron guarantee that they will pay off at a later date. For companies to achieve sustainable excellence, they must be healthy which means the capability of the organisation to align, execute and renew itself faster than the competition so that it can sustain exceptional performance overtime.

High performance no doubt is the requirement of success. No business can thrive without profits. But health is critical too. No enterprise that lacks robust help can thrive for 10, 20 or 50 years and beyond. It is now established that across the board, roughly 50% of performance variation between companies is accounted for by differences in organizational health.

But the question is whether the board of directors discuss the intangibles of the company and if yes, how much time is devoted to discuss these issues. It is no secret that most boards in India discuss issues relating to quarterly results, compliance, regulatory issues and others statutory matters. Once in a year, they also discuss strategy or business plan. The softer issues are hardly discussed in most of the boards, except some exceptional boards. If boards main mandate is to create long term sustenance of the organisation, how come the issues germane to such objectives are not discussed. Who in the board is the custodian of softer issues?

From my practical experience of chairing the boards of two public sector banks, I can say with some credibility that primarily it is the role of the CEO of the company to trigger the discussions on such issues. In 2005 when I took over as the Chairman and Managing Director of Bank of Baroda, clearly my mandate was to extricate the bank from the spiral of decline and restore the confidence of both customers and employees. Simultaneous to short term agenda of improving performance parameters, I clearly laid my site on intangibles like Human Resources, creating leadership bench strength, rebranding, technology and a culture of hassle-free customer service. Towards this goal a new human resource policy was architected which provided performance based career planning, new emphasis on developing people and creating leadership for the future. A board level HR committee was constituted which included HR experts from outside also and a human resource plan for the bank was prepared that laid foundation for HR work in the bank. Increasing emphasis on Human resources also culminated into many innovative programs that restored the morale of employees. It is to the credit of 38,000 employees and their passion that the bank awakened to its potential and became a valuable brand. The investment in foundational steps helped the bank to double every 3 years since then, which is a rare feat for any public sector bank. Our investment in leadership building measures saw 10 of BOB executives designated as ED or CMD of other public sector banks in the last few years.

Thus, our efforts to build intangibles continue to pay and the health of the bank remains sound. This is what happens when the CEO and the board invests in the long term measures. I do however, believe that in the Indian context it is the job of CEO to excite the board and get their commitment to invest in the intangibles.

In a highly competitive world, when the shelf-values of the companies is getting reduced by day, traditional mode of thinking and the stereotype board functioning can pose serious threat to the survival of the companies. Maximizing profits for shareholders is too narrow a model for the boards to continue to focus upon. The world has moved on and there is a need to broaden the thinking with the reality of today's world. Compared to the past, there is now far greater public awareness around range of global issues and challenges. Corporate boards have to respond with increasing alacrity about the societal shift strategically with better understanding of risks, innovation and processes, products and services and development of business models and partnerships to meet new needs. In order to respond to societal shifts, the boards have to pay increasing attention to ensure that leaders and managers of their corporations develop new skills and knowledge and the ability to collaborate across profit/non-profit boundaries.

It is heartening to see that some leaders of great corporations are responding positively to this trend. For example, Paul Polman, Unilever CEO, created tremor when on the day of his talking over as CEO of Unilever in 2009 announced that the consumer product giant would stop providing earning, guidance and quarterly profit reports. He declared that Unilever was determined to tackle big social and environmental problems like climate change, disease and poverty. "If you buy into this long term model, which is equitable, which is shared, which is sustainable, then come and invest with us." Polman told investors. Such bold assertion by Polman was a rare expression by any CEO in the larger purpose of the enterprise. **I believe that if you focus on intangibles, tangibles follow.**

In a brave move, the maverick Richard Branson (Virgin Group), announced formation of the 'B-Team' to deliver a Plan B for businesses- a new way of doing business that prioritizes people and the plant alongside profit. Interestingly, way back in 1969 on the pious goal of Bank Nationalization was put as social development.

Increasingly, it is recognized that the businesses should also help in tackling world's problems. In this context, the boards of companies have to clearly understand their new role in effectively utilizing their CSR budgets to larger social purpose and taking more than ordinary interest in creating sustainability.

Similarly, the boards have to bring on board people of eminence and competence who can contribute in building intangibles for the company. They must also allocate sufficient time to focus discussions on some of these critical aspects.

Currently not even 1% time on boards is spent on discussing intangibles and boards have to go a long way in bringing the intangibles onto the core agenda of the board discussions. Unless the board works beyond the immediate quarter to quarter results and takes some fundamental decisions to build the company's future, they will not be able to leave a legacy and would put companies to grave risk for survival in the future.

The important questions are:

1. To find right kind of people for the board positions
2. To find CEOs who can deliver on the intangible agenda
3. To create infrastructure for building intangibles
4. To create new capabilities and talent to execute new strategy

There are now increasing number of research which goes to prove that obsession with growth can be counter-productive and the undisciplined pursuit of more can lead to fall of organisations. Jim Collins, the author of best-selling 'Good to Great', rightly points out that "the great leaders seek growth in performance, growth in distinctive impact, growth in creativity, growth in people- but they do not succumb to growth that undermines long-term value. **Big does not equal great, and great does not equal big."**