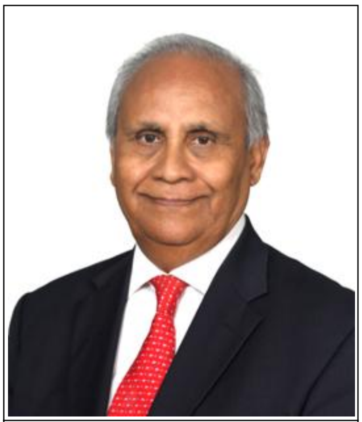
Effective Board Processes- Role of Three Key Actors



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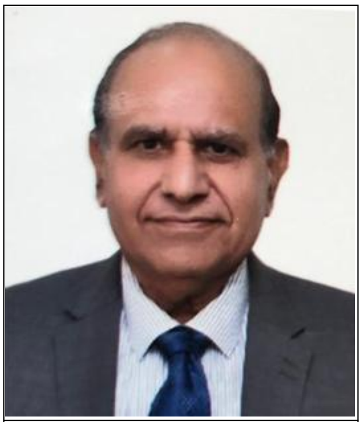

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This article mainly focusses on the criticality of Board Processes in management of Governance in the context of Financial Service Sector. Between us, we bring experiences of being on the Board of more than a dozen institutions. In this article we bring our perspective and insight based on our experience. Financial sector in general and Banking Sector in particular remain the nerve centre of any growing economy. No one can deny the need for its robustness and resilience in providing the much- needed oxygen to the economic Development. By its very nature, it is accident prone and if not managed properly can have hazardous consequences for the economy. The events of 2008 global financial crisis provide a case in point.

Governance is a major instrumentality to provide stability and resilience to a vibrant financial sector more so in a disruptive environment. It can not be denied that our Banking System requires many structural and legislative changes to provide stability and a sound base for Governance. It is equally important that at the enterprise level we relook at our governance processes. Governance Processes would largely include issues like productivity of Board Meetings, contributions of individual Board Members, time spend on Operational vs Strategic issues, managing differences inside the Board Room, providing perspective on competitive landscape of industry and organisational processes etc

Effective Board Processes can generate positive outcome for the company which are manifested through clarity of vision, execution timelines, agility in decision making process, leadership and succession planning and all-pervading facilitative and motivational climate.

We believe that there are three important actors in shaping the Board Processes namely Chair of the Board, Independent Directors and the CEO. We discuss hereunder their respective roles in maintaining effectiveness of governance processes.

Role of the Chair

The Chair of the Board is a leadership role which provides colour and tempo to the Board for effective Board Management. He is the strategic individual and first among equals in the Board Room. He has the overall responsibility to ensure effective governance. Much of the effectiveness of the Board processes depend on his leadership initiatives.

Some Key Qualities of Board Chair

1. **Self-Restraint and toughness** - The chair should follow some ground rules for effectively conducting the meetings. They need to possess conversational intelligence and should actively listen to people in the meeting. They should provide their unique perspective and help the group to avoid distraction and visualize the larger picture. It is our experience that some Board chairs unduly indulge in self-talk or avoidable storytelling and boastful experience sharing repeatedly.

The chair needs to show tough mental make up especially in assessing performance of the CEO, her compensation and bonus , tenure and issues of conflict of interest. Two recent cases involving CEOs of Axis Bank and ICICI bank are case in point commented upon by media and analysts. The chair and the Board have to act with complete professional approach in such matters.

2. **Facilitating direction of discussion** - The main role of the Board is to focus on strategic issues such as setting vision, strategy for business, digitalisation, turn around of various businesses, leadership build up and succession. Pitiably they end up spending most time on operational issues. This is a trap and the chair has to consciously take a call to shift the direction of discussion. While deliberations and discussions are important but they must lead to

decisions rather than procrastination(unless a very critical issue requiring gathering new facts). Lengthy discussions without an intent to decide the issue is absolutely a time-wasting exercise. .

3. **Providing psychological safety** - The meeting eco-system has to be open, inclusive, encouraging, and mutually respectful. It should allow a transparent system and a high degree of tolerance for criticism and dissent. All efforts should be made to avoid what psychologists call "Groupthink"- the tendency for members of a group to agree with one another, which quiets dissent and suppresses alternatives. While consensus is always welcome but blind and slavish Yes Manship to endorse a decision, can turn out to be counter-productive.

4. **Time management** - It is very critical to manage the discipline of time in the Board meetings. Because of poor time management skills, many Board chairs end up deferring several listed agenda items for the next board meetings. Maintaining exit time for the meeting is as important as the discipline of starting the meeting on time.

5. **Culture** - In the Board room directors should be allowed to air their views, challenge the assumptions of management or the CEO, without breaking the code of decency and cordiality. No one should be treated more equal than the equals among the Board members. The chair should be seen as an authentic leader who can be trusted for his words and follow-up actions.

6. **Manage the Room** - In board meetings, one of the most fatiguing part is to deal with voluminous agenda sometimes running into thousands of pages with avoidable annexures and also endless power point presentations. The chair of the meeting needs to ensure that presentations and agenda items are crispy and meaningful The discussions on critical issues should not be rushed through and important issues be examined from 360 degree perspective.

Finally, the other board members have to seriously budget their time for a meeting. The advanced reading of agenda papers, identifying issues, maintaining focus during meetings, and keeping away from distractions can greatly help in making Board meetings outcome-driven.

Role of Independent Directors (IDs)

IDs by their very conceptualisation of role are expected to ensure that the decisions of the Board are fair, transparent and are not tilted to further the promoter's personal interests. Even though, promoters may have inducted them, they need to demonstrate complete neutrality and professional approach in dealing with the issues. If there is one quality an ID need to possess and use, it is' Speaking up" when required and challenge existing ways of doing things that may be in contravention of regulatory guidelines, misreporting of any substantive information or suppression of some vital information from the market or the regulators. Keeping quiet on such occasions will be in complete violation of the expected role of an ID.

Many scandals and frauds in the financial sector can be attributed amongst other things, to this tone deafness of IDs. IDs roles as enshrined in Companies Act 2013 and other regulatory guidelines require them to act as Conscience keepers of the stakeholders both at the Board and Board Committees. This may often pose value dilemma of upholding principles over pragmatism and withstanding pressure, pain and occasional humiliation. Therefore, competence apart, measure of IDs effectiveness will be their propensity to speak up and show courage to communicate their view point even in the midst of group pressure. We contend that IDs would need prudent exercise of judgement and courageously stand up against decisions which are against public policy, established rules and regulatory guidelines.

Role of CEO

CEO in his twin responsibility as Chief Executive and member of the Board has an important and critical role. As CEO, he has to be accountable for his own performance in achieving business targets and regulatory compliances to the Board. Unlike any other Board member, he reports to Board for his performance and is accountable for actualisation of the vision for the organisation set by Board. In his capacity as Board member he is expected to sensitise the Board about the competitive positioning of the organisation and key issues and challenges to negotiate Board support in meeting the perceived challenges. It is very crucial that there is good chemistry and Trust between the CEO and the board . We give below some Do's for the CEO

1) Always be honest with the Board. Make sure that they first hear about any big initiative/news about the organisation from him rather than from any external source
2) Utilise Board time for strategic issues instead of always overloading them with operational issues
3) Share openly with the Board about areas of concern & inadequacies of the organisation. Own them and apprise the Board about the direction of his efforts

4) Share with them about the industry, competitor and Government/ regulatory policies and how they will impact the performance
5) Familiarise them with field issues, help the Board understand the business and how it makes money
6) Be dignified in his dealings with the Board Members
7) Facilitate Board members access to senior management team for developing understanding on business issues and some times use the special expertise of a Board member
8) Strong follow-up of the decisions taken in the Board meetings

Board and Management have a common purpose and each should perform its role driven by this common purpose. Together the Board and CEO can lay the foundation for long term success of the organisation

In sum we believe that in financial institutions, these three actors need to work in tandem to refine the Board processes to develop a high performance culture and an architecture of highly ethical organisation.

Governance is a serious responsibility of the Board and not a mechanistic process.

Reference: Khandelwal, Anil.K (2011), Dare to Lead,(Sage)