

The reboot of Indian Boardrooms - 2024

Huge requirement of new independent directors on the horizon



Navnit Singh
Chairman & Regional MD
Korn Ferry India



Monica Agrawal
Managing Director-Financial
Services, Asia Pacific
Board Practices Lead
Korn Ferry India

Introduction

The global economy has seen a marked slowdown in 2022 due to the rapid spread of Covid variants, weakening of pent-up demand, unprecedented rise in inflation, supply chain disruptions and the current geopolitical crisis in Ukraine.

Given the current macroeconomic landscape, the dynamics of corporate governance are evolving rapidly, forcing boards to keep up and support CEOs and management teams to address complex challenges while considering the needs of all stakeholders. The scrutiny on 'Future' has never been greater and boards are realizing that anticipating the questions of tomorrow while operating for today requires incredible alignment, courage, vision and sense of shared purpose. At Korn Ferry, we refer to it as the dual "Perform" and "Transform" agenda for Enterprise Leaders and Boards.

The evolving role of independent directors (IDs) in Indian boardrooms

The Companies Act, 2013, recommendations by the Kotak Committee & subsequent regulatory guidelines by Ministry of Corporate Affairs (MCA) have brought a radical shift in the Indian corporate governance landscape by supporting enhanced disclosure, accountability and structured processes in line with global standards. A significant impetus to improve board effectiveness has come through emboldening the role of independent directors and what they bring to the table.

A decade ago, many boardrooms in India operated like family clubs with relatives and friends appointed to key roles. With the Companies Act, 2013 mandating that at least one-third of the board be comprised of independent directors at listed companies and at least 2 independent directors be appointed at public companies (with a turnover \geq INR 100 Cr), there has been a significant change in the composition of the boardroom. Companies have since started appointing value-adding leaders from specific domains as IDs to bring in fresh and impartial perspective along with specialized skills and experience, to support their growth.

It would be prudent to say that the role of IDs continues to evolve in line with the accelerating changes in the business environment. IDs who offer constructively challenging points of view or act as sounding boards for management decisions and bring in specific functional expertise are making valuable contributions to advance the business strategy of their firms.

As the IDs assume greater responsibility, they are beginning to acquire prominence in the boardroom, especially in the post-COVID era, to play an important role in revitalizing their companies and preparing them for future.

Future-Ready Boards

The pandemic has led to rapid digitization and paradigm shifts in consumer behaviour accelerating the value addition required from independent directors. New agendas are dominating boardrooms that require skilled & experienced IDs who are proactive, consultative, and more hands-on.

Digital transformation and cyber security have gained enterprise-wide importance and have become one of the most sought-after skillsets in IDs globally. Environmental, Social, Governance (ESG) is increasingly becoming a top priority, especially in the areas of climate change and workforce safety and this requires changes in operating models and creating a sustainable working culture.

Meanwhile, employees are suffering from post-pandemic burnout. They're less connected to their employers than ever and are pushing companies to build a strong employer value proposition, especially to retain top talent. Diversity, Equity & Inclusion (DE&I) and human capital management are taking center stage with a pursuant need to build inclusive organizations by design. Diversity on the board in terms of industry and professional background, as well as gender, personality and opinion, brings an expansive array of perspectives. This needs to be embodied 'in spirit' by organisations.

The above, coupled with a rapidly changing consumer profile has meant that boards need to competently navigate newer, multifaceted priorities to achieve strategic outcomes. This has made the demand for diverse, ready-now board talent extremely high. While the talent requirements for IDs vary greatly across industries, if not planned well in advance, such talent may not be easy to find.

Urgent need for ‘deliberate’ succession planning

The Companies Act, 2013 mandated that an independent director can be appointed for a term of up to five consecutive years and be further re-appointed for an additional term of up to five years. However, an ID cannot hold office for more than two consecutive terms. As this Act approaches 10 years in existence, Corporate India is likely to witness a significant churn of independent directors, as veteran IDs step down making way for new members.

This makes it a crucial time for Indian organisations to embrace change in their boardrooms. Global cutting-edge practices suggest that companies should decide on the ideal composition of the board before they begin the process of selecting independent directors. It is well known that high-performing organizations often look towards IDs for filling in critical gaps in the overall capability of the board. To accomplish this, thought out & deliberate succession planning is the need of the hour.

Companies need to initiate selection & evaluation processes a few years in advance, keeping in mind the skillset and experience required to grow the brand to the next stage. Often, the challenge for boards is to find ID candidates with acumen alongside the conventional behavioral traits associated with a director role. Ideally, candidates require specific knowledge on top of broad operational experience and a successful executive career. The best candidates are familiar with disruption and innovation and possess wisdom, maturity and perspective. However, this talent pool sometimes is in critically short supply.

To deal with this situation, firms often widen their talent search, recruiting younger, competent candidates. We believe that much is to be gained by broadening the candidate pool. It facilitates the creation of genuinely diverse boards, not just in terms of gender but also in terms of age, background and skills. If companies need to be agile and diverse to capture the opportunities of future, boards need to have sufficiently varied profiles to deliver the broad spectrum of experience and knowledge required. Younger boardrooms can undoubtedly help augment diversity. Their true value, however, comes from the undeniable fact that the younger demographic grew up in the digital age. They therefore intuitively understand the new economic landscape. While the changing of the generational guard may mean the talent shortage for independent directors may dissipate over time, boards still face the immediate challenge of ensuring growth and success through the transition.

Therefore, the first step for the board is to articulate how new boardroom agendas are affecting the business. Once the company’s specific opportunities and risks have been identified, they can collectively assess what skills and expertise would add the most value at board level. By knowing which skills support company strategy, the search for the right talent/independent director can be made more precise.

Many firms are successfully addressing the processes involved in the selection and evaluation of independent directors and with thoughtful planning are seeing the value of their investment. They adopt a non-biased, scientific approach to selection and carry out a robust capability assessment. They cast a wide net through various channels such as internal referrals, engaging search firms and leveraging industry networks. In one such instance, one of our clients ensured seamless workings of its board with a well thought-out, phased succession of three independent board members whose terms were ending simultaneously.

Reboot for future

In a highly disruptive world, a future-focused board is a powerful strategic asset for any company, and it is during crises that the best boards look beyond immediate challenges to accelerate recovery and reboot for the future.

It is in the board’s interest to leverage the potential in IDs’ roles. While IDs’ independence should stay sacrosanct, their competence can be crucial in contributing to the board. Furthermore, while IDs may advise from a strategic vantage point of 50,000 feet, increasingly they must understand real operational details to do so. They must therefore be better informed, even more committed and possess a wider array of operational knowledge.

Korn Ferry works with high performing companies to complete the picture of their board’s current expertise and jointly identify who is needed for the future. Analyzing the collective backgrounds and experiences of each of the current directors, we build a picture of the board’s current skillset. This allows us to compare current expertise with desired future expertise, identify gaps and design a forward-looking plan for board development and conduct precise searches for value creating independent directors.

Having a diverse board with pertinent professional experiences, age ranges, and economic backgrounds can help organizations gain new perspectives and insights to serve their communities in impactful ways and the time to start rebooting is now!
