24 Priorities for Boards in 2024

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The evolving landscape of Corporate India presents a set of challenges to Boards, some ever present, some new and some gaining importance over time due to changing regulations, demanding ecosystem and increasing stakeholder expectations. In this article I present 24 issues that I believe should be focussed upon by Board Members in 2024, as they steer the company towards sustainable growth.

1. **Sustainability and ESG** – In spite of push backs that we have seen in some quarters, the focus on Environment, Social and Governance Factors is gathering momentum. In some markets like USA, these terms have become politicized and weaponized. However, generally investors are increasingly giving more importance to ESG in their investment decision. The investment though is still mostly based on total return expectation, in which ESG plays a role, rather than solely on ESG.

2. **100% Compliances** – There is no escape from increasingly onerous compliance requirements emanating from multiple regulations and authorities. The action against PayTM Bank underscores the danger to whole organization of being non-compliant. A research paper by TeamLease finds that there are 69,233 compliances and 6,618 annual filings emanating from 1536 Acts and Rules. While each company may not have to contend with all of them, the number would be sufficiently large to merit an IT enabled monitoring system for compliances.

3. **Engaging with Proxy Advisors** – Proxy advisors like IIAS have done a superb job in creating a supporting structure, based on principles, logic & facts, for institutional investors to decide on their votes on important resolutions. Boards must engage with them to get a better understanding of what the stakeholders are expecting as also to find gaps in their corporate governance framework.

4. **Leveraging Technology including AI & Disruptive Innovations**– Advancements in AI, quantum computing and other technologies have been on Board Agendas for years. However focus on these skyrocketed in recent times due to proliferation of generative AI tools like ChatGPT. Technology is all pervasive now and the Boards cannot but use it in every aspect of business – risk management, decision making, and customer experience and so on.

5. **Cybersecurity** – The cyberattacks by hackers, blackmailers and vested interests happening across the world tasks the board with establishing robust cybersecurity procedures and defences to block digital attacks and protect against data leaks.

6. **Succession & Talent Management** – Succession planning and talent management are critical for success of any organization. Boards must have a robust succession plan, identifying potential successors for key leadership roles, and provide training and development opportunities to enable them to come up to the expectations of higher positions. Transitions must be properly planned and executed with clear communication and support for incoming leaders.

7. **Ethical Decision Making** – 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. Reading the agenda and coming fully prepared for the meeting is necessary. More often than not, one sees inadequate preparation by Directors for the meeting. It goes without saying that all decisions must be in the best interest of the company and its stakeholders.

8. **Effective use of Committees** – The board committees, especially Audit Committee, have been given more power and more responsibilities. The use of committees will help the board in decision making by ensuring focussed attention on a specific area or issues which may not be possible for the full board.

9. **Board Diversity** – Diversity in Skills, Experience, Knowledge, Networks, Backgrounds, Age and Gender is important to bring difference perspectives to the Board for better decision making. Post Covid, on line meetings have made it easier and economical to have diversity with a Global reach. Historically and currently Boards have been male dominated. Recent regulations have ensured that Boards have at least one women member. We however need much greater gender balance.

10. **Board Continuity** – Too many changes in the board at the same time can disrupt effective working of the board. The recent maximum two term rule for independent directors is creating a scenario where in several boards majority of Independent Directors are leaving at the same time. For future transitions this must be better planned with terms of directors not coinciding to give enough time for the new director to come up the learning curve while the old directors are still around to support and guide.

11. **Board Culture** – Most of us are reluctant to disturb the collegiality and conviviality of the Board. Director's

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 Board. Directors must record their dissent, where the situation demands it, especially for their own protection.

12. **Board Evaluation** – Boards should go for external evaluation to get an objective and unbiased view, not influenced by internal dynamics or politics. Honest and critical feedback, fresh perspectives and best practices from industry that external experts bring will not only identify areas of improvement but also boost stakeholder confidence in Board's commitment to governance excellence.

13. **Hawks eye on Related Party Transactions** – Board must keep razor sharp view on Related Party Transactions and ensure they are really at arm's length and in the best interest of the company, Comparison with benchmarks who could have been an alternative counterparty, with full discourses and transparency is necessary. Open ended approvals, in value or in time, must be avoided.

14. **Managing Investor Expectations** – Investors are expecting boards to show more responsibility and be accountable for their decisions by establishing clear performance metrics and regularly reporting on progress. Board engagement with stakeholders is crucial and they must always keep the lines of communications open, ready to hear what they have to say and consider that in their decision making.

15. **Creating a Support System of Auditors, Domain Experts & Consultants** – The most important tool in the hand of board to increase their effectiveness is the use of external auditors and domain experts. These must be used liberally to investigate, explore, and get quality assurance, best practices etc. They must be appointed by the Board or its committee directly. Their compensation must also be fixed by the Board or its committee and report submitted directly to it.

16. **Balancing Short Term Pressures with Long Term Strategy** – In a world where every quarter result is seen and dissected and acted upon, the board must not lose track of long term success while looking at what has to happen now. One must not chase quick wins at the cost of playing long term game for lasting success.

17. **Strengthening internal processes and controls** – Board has to play an important role in ensuring a well laid down structure of policies and procedures to increase effectiveness of execution within defined parameters. There will always be an unstructured part of execution. Continuously giving it a structure without creating rigidity and bureaucracy is necessary. Importance of strong internal controls, transparency and effective board oversight cannot be overemphasized.

18. **Managing Risks especially Third Party Risks** – Identifying, measuring, controlling and monitoring risks is the prime responsibility of the board. Board must ensure that there are well laid policies and robust processes for managing risks. Overall limits on market and counterparty risks that can be taken by the company must have board oversight.

19. **Complete and correct disclosures** – Transparency and disclosures are cornerstones of effective corporate governance. Boards must take responsibility to share important information required by stakeholders, ensuring that it is complete, on time and absolutely accurate.

20. **Managing an unstable national and global economic and political environment** – The environment has become highly volatile and unstable. Who would have believed a few years ago that we will soon have two long wars going on in Europe and Middle East. Trump or Biden as US President can mean major differences in US economic policies for the rest of the world and impact every country and company. Boards must look out for major developments in the environment and be prepared for the uncertainties that it brings.

21. **Executive Compensation** – Boards must build a compensation structure which can attract and retain the right talent and create a value system in the organisation that nurtures good governance and rewards merit. Board must push back on obscenely high compensation being paid to promoters in executive capacity, sometimes more than 10 times what a professional executive would get in the same position. Further, giving ESOP's with significant discount to the market value is illogical and defeats the very purpose of aligning the interest of employees and shareholders. Allocation of ESOP's must be balanced with fair distribution down the organisational hierarchy and just a few top executives should not get bulk of them.

22. **Meeting Challenges of Specific Situations like Start Ups; Absence of a Controlling Shareholder etc.** – A Board which sees transition of a Start Up from a Private Company to a Public Listed company will have to step up its game to manage the expectations of a much larger set of stakeholders. The degree of disclosures and scrutiny of transactions, especially RPT's will go up manifold and expectations of a much larger number of investors will bring different dynamics to the Board. Similarly emergence of large corporates with no controlling shareholder presents its own challenge and bigger responsibilities to the board in the absence of a check and balance that the promoter brings.

23. **Managing Reputation Risk in face of adverse media coverage** – We have seen the immense damage that can be done to the company by adverse media coverage. These can be triggered by multiple events outside the control of the board – Claims of

Fraud by Market Analysts, Raid by Government Authorities, Ugly Public Disputes amongst the Promoters, Accident in company premises and so on. It is important that the Board has a contingency plan to face such situations and steer the company in difficult times for the best outcome for all stakeholders.

24. **More Frequent Meetings, Special Focus Meetings & Engagement with 2nd Line of Management**– Just four meetings in one year are not enough to meet the onerous responsibilities placed on the Board. In the four meeting in most cases bulk of the time is taken up by compliance and routine matters. Board must meet more often. It is important that board meets a couple of times a year at least, where no routine agenda is discussed. The focus here should be on Strategy, Business Development and critical issues facing the Company. These meetings can be held in locations other than the Head Office like in Factory or Branch and may be combined with a plant or Branch visit. In these meetings the board should engage with the line of management below the CEO to get a better understanding of their perspectives and issues.