

Nose in, fingers out: The board's mandate

Indian boards have evolved considerably, pushed by regulation, propelled by markets, and matured with experience and exposure to global governance discourse. Based on our experiences and those of our peers, we want to call out an area that Indian boards need to be more aware, mindful, and cautious about — the Lakshman Rekha that separates the board from the management.

Why is this separation important? Because it is fundamentally bad governance to be on both the “buy” and the “sell” side at the same time — be the approving and overseeing entity, as well as be a part of the entity that formulates plans, proposals, and business decisions. More broadly, boards supervise the business, managements run the business, and each has accountability for their role. Blurring the boundaries makes accountability fuzzy. It is interesting that in India, chairmen are referred to as the “chairman of the company” rather than the “chairman of the board”.

In reality, this is a fine and tricky line because board business requires situational judgement and not hidebound formulae. There will doubtless be times of trouble when the board needs to expand the boundaries of its usual role, where the tremendous experience, expertise and wisdom of some board members needs to be tapped. But this is all the more reason why clarity of roles and understanding the line of separation is critical.

Let's examine the not-so-uncommon role that board members assume of “formally mentoring” senior management. This innocuous and seemingly good practice is a line crossed, especially in the context of factual and objective performance and people decisions.

Having said that, chief executive officer (CEO) selec-

tion — the one key responsibility that the board alone must fulfil — requires board members to have an insightful understanding of senior management contenders. Formal processes can achieve this. If board members feel that real insight emerges from informal meetings, then those too should have a process.

Another not-so-uncommon practice is for management to approach individual board members for advice. Is the fine line crossed here? Not if board members are cognisant of their role — engaging in-depth in a discussion on the issue is valuable to both sides, but the line is crossed when solutions are co-developed, leading to the possibility of board members being more vested in that outcome.

The same rule of “nose in, fingers out” applies to board subcommittees. An M&A subcommittee should not be participating in the deal-making process or negotiations. Its job is to provide guidelines and guardrails, challenge management's assumptions, and identify blind spots.

On the other hand, navigating discussions with activist shareholders, fairly common overseas, is a board responsibility, with management participation as deemed necessary by the board.

What's the point of so much expertise and experience on the board if it cannot partner with the management more fully? The point is that boards need to do their own job better, not to partner with or augment management in doing management's job better. If management needs to be augmented or partnered, the board's role is to ensure that management does so, not to make up for the lack of skill sets by stepping in with sleeves rolled up.

Surely, there are situations where the board needs to roll up its sleeves and step down from its supervisory pedestal. For example, when the company is CEO-less and the board's succession planning has fallen short.

Even there, we have seen mature boards respond with structures for closer supervision by a board subcommittee — supervision being the key word. Exactly at the time when the board and business must operate with clarity, there cannot be confusion about who is responsible for what.

The thing is, when board members spend more time practising their craft as an extension of the management team, then, in addition to the conflicts we discussed, they have less time to do board work — and gradually the board work begins to suffer. Accountability is compromised.

An example of that is strategy sessions of the board where the chosen format is for board members to join management teams to co-create strategy. This is flawed. Management's role is to develop the strategy for the business, own it, and execute it. The board's role is to approve the strategy after understanding and testing its assumptions and its operating plan for execution, assessing its inherent risks, and establishing the key performance metrics of the strategy. A combination of the management's deep understanding of the business combined with the objective and more distant view of the business that a good board has, is perhaps the best approach.

North American and European boards, in our experience, manage this fine line with a lot more clarity than Indian boards. Perhaps the agenda for the many board effectiveness training programmes that exist should focus on helping participants understand the board's role and business more granularly in comparison to managements' — knowing where the fine line is and how to stay on the right side of it. These programmes should help chairpersons in particular and all board members to build processes that can make this easier to do while avoiding processes that can create confusion. This is where the governance cadence comes in.

The authors have extensive board experience



RAMA BIJAPURKAR & VINITA BALI