Press Release

Vital for Whistle Blowing Policy to discourage and penalize frivolous complaints: Keki Mistry

Boards increasingly expected to play a more active role in risk management particularly cyber security risks

Being on lessor number of boards gaining traction; Shareholder activism bound to become more pronounced in India

Mr Keki Mistry, Chairman, CII National Council on Corporate Governance & Vice-Chairman & CEO, HDFC Limited reflected on how boards are operating under far greater scrutiny than ever before with increased regulatory compliance on companies to improve their governance practices. Providing an overview of the current developments in corporate governance globally, he highlighted few corporate governance trends that have emerged in India over the last few years while addressing the CII Corporate Governance Series, held in Mumbai today.

Mr Mistry highlighted that a whistle blower policy is a critical element of internal control. But it is also equally important to ensure that there are sufficient checks and balances in the system so that mala fide intentions are discouraged and complaints with dishonest intents penalized. On independent directors, he said they cannot be held accountable for the performance or functions which are typically the responsibility of the executive management. In the current scenario, independent directors ability to objectively look at risk management is diminishing. Some immunity needs to be provided to them unless there is a wilful case of fraud. Until this is done, people of calibre will be reluctant and fearful of joining boards.

Mr Mistry also discussed that being on a lessor number of boards is gaining traction amongst investors and there may be significant level of reduction in the level of over- boarding in years to come. He explained how there is an increasing expectation around the oversight approval of the board which includes overall strategic planning, investor engagement and executive succession planning. Particular attention is being paid to directors' skill profiles, diversity and the making of a robust mechanism for board refreshment that goes beyond the box ticking exercise. Boards are increasingly expected to play a more active role in risk management particularly cyber security risks. Speaking about recent technological innovations like mobile applications; big data and cloud computing, he said technology awareness at the Board level has become indispensable for the growth of the company.

Speaking on shareholder activism, he highlighted replacing management; dividend payouts, executive compensation, board compensation, and new Director appointment as some of the focus areas of activism. Investors exert a strong influence in governance both directly and through their proxy advisors and hence, shareholder activism is bound to become more pronounced in India, he cautioned. Mr Mistry enumerated the increasing focus on environmental, social and governance issues and asserted how markets are giving greater weightage to companies that provide sustained value creations.

Setting the tone, Mr Vijay Chawla – Partner and Co-Head, Governance, Risk and Compliance Services at KPMG in India spoke about how today, boards are being held accountable for corporate failures hence it's important to keep an eye on the global trends in corporate governance. A Harvard study revealed that global trends are no different as compared to what we see in India. It's imperative for boards in India to consider a shared concept of corporate purpose, shareholder engagement, study the capital markets pressures and how resources are allocated, and evaluate performance from time to time. The expectations from the boards include oversight over misconduct, dysfunctional cultures, security breaches, and breakdowns in corporate responsibility. However, one will need to wait and watch to know whether these disclosures are optimal and if the expectations are realistic for corporates and boards.

Delivering the Concluding remarks, Mr Krishnava Dutt, Managing Partner, Argus Partners said that 2019 has been a year which has witnessed several significant events in the field of corporate governance. Consequently, company boards and especially independent directors have come under greater scrutiny. This has led to a far more engaged board in most companies. Shareholder activism has led to the proposed guidelines for proxy advisers. Auditors are viewed closely under the spotlight where audit queries are more investigative than ever before. However, against the backdrop of this environment of a heightened awareness of corporate governance the judiciary must tread with utmost caution and not let external noise influence their judgment, he explained.

Earlier, welcoming the guests, Mr Shailesh Haribhakti, Member, CII National Council on Corporate Governance & Independent Director exclaimed that a new Board world beckons while speaking about how global governance is converging in best practices. The forces driving this change are exponential technologies which are disrupting business models rapidly. The 600+ car battery charging station in China, the drone deliveries in California, the trillion-sensor world driving IOT and vertical agriculture sending productivity soaring are all changing the Board priorities. Given the new Board agenda items including strategic response, succession, risk including cyber risk management, privacy and integrated reporting, the need to revamp practices is urgent. Boards are responding by refreshing DNA of the Board; diversity in origin, gender, age and backgrounds; digitalising board inputs, analytical, context and appraisal; separating the roles of Chairperson and Managing Directors; and a very different agenda setting mechanism. Outputs from Board evaluation are becoming sharper, he explained.

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