

Effectiveness of board processes; independence and quality of independent directors; risk management - Key guidelines for Effective Boards: Keki Mistry

~ Deep commitment to good governance and zero tolerance policy on any kind of compliance failure needed ~

~ Vital to make dishonesty accountable in a timely and meaningful manner ~

Mr Keki Mistry, Chairman, CII National Council on Corporate Governance and Vice Chairman and CEO, HDFC highlighted effectiveness of board processes; independence and quality of independent directors; risk management as key guidelines for effectiveness of what he calls the nerve centres of corporate governance – the Board. “Effective boardrooms are ones where the CEO and his team develop the strategy while the board provides critical oversight. The Chairman of the board plays an important role as he has to ensure that there is honest interaction between the management and the directors,” he said. He was addressing an exclusive session with captains of India Inc as part of the CII Governance Series 2016-17 organised by Confederation of Indian Industry.

Deliberating on the increasing visibility of Board processes to stakeholders and enhanced shareholder activism all over the world, he highlighted that one of the effective ways of dealing with controversial topics is for the Chairman to speak to independent directors and gather their views outside the boardroom. He said this would ensure everyone gets to express their views frankly while helping the board meeting achieves its aim efficiently.

Naming composition of a board as a key element to determine its effectiveness, Mr Mistry elucidated that the role of independent directors is not to question the management, but to challenge the assumptions and the business scenarios that are being discussed. Highlighting the extremely critical process of selecting independent directors, he suggested 4 guiding principles for their selection and appointment. These included willingness to commit time; appointing a lead independent director, usually the senior most director or the Chairman of the audit committee and regular meetings at periodic intervals without the non-executive directors; thirdly, honest board evaluation and fourthly, appointment of independent directors keeping in mind the expertise needed at the board.

Mr Mistry suggested boards adopt practices for effective risk management. These should include demanding and obtaining a holistic view of risks both on and off the balance sheet, their ownership and how they are mitigated; clear understanding, articulation and consideration of risk appetite and design of controls, policies and procedures. He highlighted board’s consideration of inherent risks on any new strategic initiative and continuous evaluation of evolving risks while also talking about risk assessment and incorporation of appropriate risk mitigation measures.

Mr Mistry congratulated CII for continuing to play a proactive role in striving to improve governance standards in India.

Setting the tone at the session, Mr Sai Venkateshwaran, Partner and Head - Accounting Advisory Services, KPMG in India asserted that the Board should build a culture where it encourages discussion and debate as it seeks to balance the diverse interests of all stakeholders, and not just shareholders, in its endeavour for long term value creation. He felt what's most important is the spirit with which the core governance principles are applied in arbitrating between various stakeholders and their interests. He also said that the Board members should know when to engage, trust or challenge, both one another as well as management, on critical issues facing the company.

Delivering the concluding remarks, Mr Sriram Ramnarayan, Vice President, Financial Institutions, Thomson Reuters India said that good corporate governance and effective risk management have a positive impact on the bottomline as it not only protects from regulatory censure, but also instills greater market confidence. He also asserted that technology combined with information services provides an opportunity to create a more transparent business environment.

Earlier, welcoming the guests, Mr Ninad Karpe, Deputy Chairman, CII Western Region & Managing Director & CEO, Aptech Limited spoke about how the standard of governance will depend on the moral complexion of business. He said that business morality must permeate the entire operation from top to bottom and embrace all stakeholders.

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