Governance *Matters:*

Insights from the 2022 Directors Development Program

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Table of Contents

The Fundamentals of Corporate Governance

Corporate directors exchange on how governance can build an effective organization

On April 28, 2022 Egon Zehnder held “The Fundamentals of Corporate Governance,” a discussion exploring the changing landscape of corporate governance for board directors of India’s top public sector banks. Two speakers—Shailesh Haribhakti and O. P. Bhatt, both veterans of multiple company boards—outlined their thoughts on what makes an effective board director, and how that role has evolved as new technologies, responsibilities, and world events shape companies’ relationship to their shareholders and the wider stakeholder community.

What Makes a Great Board Director?

The goals and strengths of a board director are very different than those of executives. Yet this distinction is complicated by the fact that executives often transition into board directors, and must adapt to a new environment and skillset to thrive.

“Who is the person who becomes a director?” asked O.P. Bhatt. “They may have been CEOs. They would be well known, well respected. They’re professional. They’re distinguished in many ways. They know how to get things done. They know that when they say something, it means something and it gets addressed.” However, Bhatt cautioned, this is not how it works in the boardroom, and the ensuing culture clash can create turbulence across the company. “If you are not able to move from where you are, if you are not able to mentally, emotionally, and psychologically transit from your earlier role mindset to the new role mindset, you will not be able to do justice to it,” he said.

When asked about the elements of good corporate governance, Shailesh Haribhakti said “purpose” is the key word: “The purpose of engagement of contribution, of bringing in moral capital of the highest order, of being able to express freely and fully what he or she believes in, of being on purpose in terms of being clear in taking decisions in conveying decisions, in making sure that it should not be clouded by how somebody will think about it.” He stressed the need for board directors to approach their role with honesty and transparency, and objectively question business decisions to provide optimal feedback.

Bhatt echoed these sentiments, and specifically called out independent board directors as a company’s “guiding force.” “The word independent means independent of every conflict,” said Bhatt. “The word independent means independent of every interest, vested or otherwise. The word independent means that this person is completely loyal to this company and to this board in every which way…The independent director is the most important person on the board.”

Above all, the speakers agreed, board directors must be stewards of their organization, and utilize their power and oversight to ensure the sustainability of their business and all who depend on it. “There are so many people whose lives are dependent on a company,” said Haribhakti. “We must stretch every muscle to make sure that you can give as much as you possibly can to maintain the sustainability of the organization, keep it as an entity that will prosper over generations. Because that’s the whole purpose.”

Evaluating Risk as a Bank Board Director

In speaking to an audience of bank board directors, O.P. Bhatt highlighted important ways that role is distinct from board directors of non-bank organizations. While at a basic level, the tenets of good corporate governance are the same across both, Bhatt explained that evaluating risk is a vital difference.

“Banks, by the nature of their business, have the ability to take on risk very quickly,” he said. “It could come in investments, it could come via Treasury, it could come because there are certain technically complex changes that are taking place, and therefore many of these signals whether risk is increasing or not can be picked up only by specialists. How much specialization is there on the board of a bank to be able to pick up signals with regard to risk and which direction it is going, whether it is increasing, whether it is within the appetite of the bank, whether they will be able to deal with that?”

If such decision-making on risk goes wrong, it could have a domino effect on other institutions, other banks, and even the entire economy. “If you are aware of this, then you will think and speak differently,” said Bhatt. “If you are aware of this, then you will keep up to date on everything relevant on your bank, on your bank boards, or other things that are interconnected.”

Another key consideration for bank board directors is the depositor—the source of the vast majority of a bank’s funds, yet one who is regularly “completely neglected” in the board, according to Bhatt. “Who is there to watch his interest? They watch the interests of the shareholders. They’ll watch the interests of the regulators. They’ll watch the interests of other people. But nobody is watching the interests of the depositor.”

Bhatt implored board directors to assess risk and strategy so as not to compromise depositors’ interests, despite the lack of official representation. These concerns speak directly to an emerging form of “conscious” or “stakeholder” capitalism, the importance of which was stressed by the event’s two speakers.

‘Conscious Capitalism’ and Ensuring that Organizational Change Happens

Recently, a wave of recognition has swept over many corporations that underscores the need to develop a broader, more inclusive form of capitalism that delivers value beyond just shareholders. This “stakeholder” or “conscious” capitalism is particularly relevant for boardrooms and company directors, who can exert influence over such long-range corporate directions.

Related to stakeholder capitalism are the "ESG" criteria, which stands for Environmental, Social, and Governance. This is a set of standards for socially conscious investors to evaluate companies based on their commitments to issues such as environmentalism, diversity, and transparency.

To meet these standards and achieve a more inclusive form of capitalism, however, businesses and boards need to take targeted and measurable actions. Shailesh Haribhakti described how board directors need to change their mindset to fit these standards and lead companies toward a path of accountability through independent external evaluation.

"We said: Let's take actual targets year by year as to what will be our percentage of diversity," Haribhakti said when recounting actions to address diversity and the "social" aspect of ESG. "So, where it is X today, how much time will it take us to get to, let's say, 3X to be close to where it should be, which is in terms of simply gender diversity, a ratio of 50:50. Now, if that is the way that you can create the impulse to make the change, then things will work out. Systems, processes, policies, SOPs, orientation, actions. All of that will play out to help you to reach but it is critical to monitor whether you are reaching that goal on an ongoing basis."

O.P. Bhatt spoke more on the difference between talking about ESG goals and actually achieving them. Instead of just "glossy brochures" and "hype," Bhatt said that metrics and measurements are needed to make sure there is substance behind the pledges.

Board Directors Must Always Be Ready to Learn

The decisions that board directors make touch virtually everything in their organization, and in order to ensure they are making the right decisions each time, they need to know what they don't know. In other words, board directors must perpetually keep learning—about new technologies, emerging ideas, and the minute facets of the organization they help manage.

"The most important thing for a director is continuing learning, continuing education," said O.P. Bhatt. "And this is one of the things which is my ask from all the boards that I am on."

Bhatt gave the example of a car company that he sits on the board of. “Now I cannot look at cars the way I used to look at them before,” he said, explaining that he continuously analyzes cars’ costs, technologies, even their shape. He then uses this data in board meetings.

“Are directors this sensitive to the company that they serve that this happens?” Bhatt proposed. “When I read an article or a newspaper report which is about cars, I look at it differently than the way I used to look at it before. Something has changed… not only it has changed intellectually, it has changed my values. It has changed my attitude. It has changed so much.”

Board directors’ work is not just confined to the handful of hours they spend in meetings, Bhatt concluded. “Their work is 24 hours a day,” he said. “Unless you have that insight, and unless we have the commitment, unless you’re willing to go that way, you will not be able to do justice to your role as a director.”

Legal Responsibilities and Liabilities on the Rise for Board Members

Lawyer and board member Haigreve Khaitan shares what directors should be aware of

As part of the Directors Development Program, Egon Zehnder hosted a session titled "The Board's Legal Environment" that focussed on legal considerations and responsibilities for board directors. The featured speaker was Haigreve Khaitan, senior partner at Khaitan & Co, one of the oldest law firms in India. Khaitan serves on several boards, including Tech Mahindra, Jio Platforms, and Torrent Pharmaceuticals Ltd.

Rising shareholder activism and the influence of proxy advisors

The first area Khaitan covered was in the realm of shareholder activism, which is necessitating that boards be extremely careful in what they do and present. This is seen most prominently through the increasing presence of proxy advisors, who have garnered an outsized portion of influence in voting power in many public companies.

Because of this, "boards have to really take care of what proxy advisors are thinking and how they will react, to bring in transparency and an increased responsibility," Khaitan said."We have to be prepared for much greater scrutiny in terms of every transaction the board is doing, and obviously manage conflicts very carefully."

Khaitan brought up several examplesof companies with a poor-performing stock, in which proxy advisors were able to sway a vote to oust the CEO. The lesson, however, was not about poor performance; it was about communication and being able to discuss with these proxy advisors why growth is lagging and what the company is doing about it.

Khaitan noted that the pendulum of influence has swayed far in the direction of these proxy advisors, which can cause issues when their requests or guidelines aren't in the best interest of the company as a whole. But he recommended patience: "There has to be an equilibrium which will come. I think we have gone to one end, but it will come back." In the meantime, Khaitan said to look at the positives of proxy advisors: "If they weren't there, then who could actually raise this voice? I think there's a huge, huge positive role they've played, but that there will be a balance."

Boards have more legal responsibilities than ever before

In talking about the legal responsibilities of board directors, Khaitan recalled when decades ago, board meetings were less about discussing company performance and more about casual chit chat.

"I never received the agenda in advance, no documents were placed for us," he said."It was actually embarrassing for me to even askhow's the company doing, how's the performance, is there somewhere I can add value?It was not expected at all."

Things have changed, as board meetings now contain intricate analyses of company performance, days-long agendas, and piles of paperwork. "Over a period of time, the responsibilities have gotten codified from a general responsibility of the board to specificresponsibilities and duties," said Khaitan. These include mainstays, such as operating in good faith, avoiding conflicts, reporting unethical behavior, etc.

This evolution has not just sharpened boards' responsibilities, but their legal liabilities as well. "In reality, it's really those people who are in charge of the management of the company and in control should be responsible," said Khaitan, on what directors may face should criminal misconduct occur.

Khaitan brought up the example of one company that saw its executive, non-executive, and independent directors get arrested when forensic reports showed irregularities and misappropriation. He said that directors' legal accountability means they must speak up and record their dissent when such damaging information is presented.

"Independent directors cannot be mute spectators," Khaitan said."If you are not objecting and you are not recording that objection in writing, then you cannot get relief on the basis that you were not in charge of the management."

A new era of disclosure and accountability

In recent years, the corporate world has undergone a reckoning with ESG (short for "environmental, social, and governance") and CSR ("corporate social responsibility") standards. These stakeholder-focused metrics are redefining how companies engage with the world outside their boardroom and shareholders—and with them comes a new form of legal accountability.

"Every institution now has a code of conduct, and the code of conduct is very wide," said Khaitan."It doesn't apply to just the individual, but connected persons, applies to relatives…It's a deep subject that has expanded the scope of related party transactions."

Making appropriate disclosures of conflicts of interest is a large part of this new era of accountability, which sees regulators as well as society at large keeping watch like never before.The same goes for insider trading or fraudulent trading when headed for insolvency. "Directors will be personally liable," Khaitan said.

A regulator's perspective on bank boards

What bank regulators are looking for and the mechanisms that banks can set up to meet their needs

As part of the Directors Development Program, Egon Zehnder invited N. S. Vishwanathan, former Deputy Governor of the Reserve Bank of India to speak on the topic of "Regulators' Perspectives for Boards", covering what compliance measures regulators such as the Reserve Bank of India are looking for, and how boards can set themselves up in a way that can effectively meet those standards.

The Ideal Bank Boards

Vishwanathan began the conversation by defining what a public bank board is, and what makes it the most successful. The public bank board is a separate and different entity from boards of private companies and private banks, he said. "Each of these require a kind of specialty, and each require a specialty from a bank."

> "I would look at the board being a complementary set of people"

In these boards, "what I would look at is it being a complementary set of people, a set of people who brings skills and knowledge that together enable the bank or the organization to run well," he explained, adding that being complimentary supersedes each person having an area of expertise. "The idea is that it is not necessary that each of them is professionally qualified." Instead, the board should aim to be collectively made up of:

- **Complimentary expertise** — different members should have different skills that allow them to address the myriad issues that any board will face with the understanding that they require.
- **Specialized knowledge** — there should be individuals on the board with specialized knowledge in the areas of importance to that respective board.
- **Understanding between governance and management** — the functional responsibilities of board is to govern, the responsibility of the executive is to manage, and a board that is able to draw this line, understand this line and ensure that both these activities are conducted in a proper manner.

Distinguishing Between Governing and Managing

Vishwanathan was clear that boards and management had separate and distinct roles: "The job of the board is to govern. And the job of the management is to run," he said. "Understanding the difference between governing an entity and running an entity is very crucial."

> "Also included in governing is strategizing"

Regarding the board's responsibilities to govern, he continued, "The ultimate responsibility to the public, to the stakeholders, [and] to the shareholders rests with the board. So, the board should put in place strategies, policies, directions, and processes that will enable it to give a set of directions to the management and ensure compliance with those directions. And obviously when the board is giving directions, the board has to ensure that it is compliant with the [regulatory] framework that is in place." Also included in governing is strategizing, he said. Thinking about where the organization needs to be in five to 10 years, how it will get there, and then monitoring its progress and getting feedback along the way, is an inherent responsibility of a successful governing board.

Challenges arise when the governance role slides too far across the line into the management role, said Vishwanathan. “I think getting that line correct is important. [When] we talk of the relationship between the board and the executive management, in any organization, in any set of people, [what is] most important is trust. And trust is not built by just believing. Trust is built by, again, processes. So, if there is a process … that is when I think governance is likely to be best.”

How Boards Prepare for Regulation

Every member and committee on a bank board is important to the process, but as it pertains to regulators, Vishwanathan noted the three most important in his mind: the audit committee, the risk management committee, and the nomination and renumeration committee.

Audit committee

With that legal direction in mind, the most important entity on the board, besides the full board itself, is the audit committee, said Vishwanathan. “[Audit] is an independent assurance mechanism,” he said. The committee is directly responsible for compliance, in a global environment that is increasingly “compliance culture” oriented.

“What is the nature of approach of the board … towards compliance? Does it look at compliance as just a box to check? Does it look at compliance as a mechanism for doing business the right way? And are there conflicts that arise between the two, and how are they resolved, if at all?” all are questions that fall in the purview of a properly functioning audit committee.

Risk monitoring committee

The risk monitoring committee is the second most important committee because, as Vishwanathan put frankly, “banks are essentially in the business of taking risks.” Those risks fall into four broad categories that the committee should monitor in order to be prepared for regulators: credit risk, market risk, operational risk, and liquidity risk.

- **Credit risk** is risk associated with people and companies unable to pay back loans or lines of credit.

- **Market risk** stems from the global economy and fluctuating interest rates.
- **Operational risk** arises when customers and businesses have trouble interfacing with banks and doing business, something that happened during the COVID pandemic.
- **Liquidity risk** is associated with how banks manage their liquidity versus liability, especially in very liquid environments.

The importance of the risk monitoring committee was felt during the Covid-19 pandemic, when banks were opened up to high levels of every kind of risk, said Vishwanathan, as bank branches closed, people lost jobs, and delinquencies spiked. Regulators are looking closely at all four of these risks as critical to a business' health, and the best risk management committees will ensure that the risks stay within the boundaries of normal. Alternatively, Vishwanathan said, "The impact of inadequate risk management is a systemic impact, and a financial stability impact that could be very, very large."

Nomination and renumeration committee

While it doesn't relate directly to finance or regulation, Vishwanathan noted that the nomination committee, "is important because you are setting the right standards in terms of whom you are bringing, who [you] are appointing … That's how [you] decide how the organization will be run."

Does Compliance Burden Bank Boards?

A refrain that is becoming more common among bank boards is that the degree of compliance being required by the government is overburdening bank boards in a way that is prohibiting them from focusing on forward-looking tasks. Vishwanathan addressed that sentiment, saying while that is the case, because the board leads the organization, and regulators require compliance, boards don't always have a choice.

"The connection between the organization and the external world is the board … and therefore, what processes it puts in place to ensure that that interface between the external environment and organization is that of the board," he said. "For example, if there is a failure in terms of compliance legal processes [that the] board has not put that in place, the board is responsible. It's an apex body for that reason."

The reserve bank doesn't say specifically that bank boards must review a certain number of specific items, as they had done before 2015. Today, they require boards to focus on seven key themes *(details in annex)* prescribed by the Nayak Committee namely, business strategy, financial reports and their integrity, risk, compliance, customer protection, financial inclusion and human resources, which are critical to the organization but allow the boards to determine how much time to spend on each, said Vishwanathan. "How you spend time, how much you spend, which topic is more important to you at a particular moment in time is the board's discretion. So, what important areas should be assigned and how much priority [they have] is left to the board. And how it is ensuring that that is happening is also left with to the board."

The feeling that compliance is taking up too much time persists though, because "the role of the board is not very clear," says Vishwanathan. Bank boards are strategic, they are the external symbol of governance standards at the bank, they are responsible for regulatory oversight, but they are not responsible for day to day management of the bank. Directors should plan to calibrate the role they play in line with this expectation.

To those saying that there is too much compliance, the reality is, "that things have to be done, and that's the job of any board, it's not something specific to bank boards," he said. "Let's be very clear, whichever board, bank board or others, their responsibility is to ensure that the organization is running in a manner that is expected and their responsibilities to stakeholders are a given. The reserve bank of India, as a special regulator for boards, has prescribed ways to do it … if you don't do what is expected of you, I couldn't care less how you do it, but if you don't do what is expected of you, [there will be consequences]."

Within those boundaries, the board and the management can decide what they will do.

Annex:

Critical themes in board deliberations as prescribed by the Nayak Committee

Category	Description
Business Strategy	Development of new products; competitiveness of individual businesses; business reviews in relation to targets
Risk	Policies concerning credit, operational, market, liquidity risks; assessing the independence of the risk function
Financial Reports and their integrity	Detailed scrutiny of quarterly and annual financial results; NPA management and reported NPA and provisioning integrity
Compliance	Regulatory requirements; adherence to RBI and SEBI norms; observations from the annual financial inspection by RBI, and from the Long Form Audit Report; review of decisions in previous minutes of meetings, and key decisions within subsidiaries; review of action taken reports; appointments to board committees
Customer Protection	Mis-selling, particularly third-party products; laying down the appropriateness of products to different customer segments; understanding the broad trends and concentration in the growth of customer grievances and their resolution
Financial Inclusion	Review of priority sector lending; payments for the disadvantaged; deposit mobilization from weaker sections; support to microfinance institutions; and other issues
Human Resources	Appointments and approvals of directors, perks and perquisites for employees, incentive schemes for employees, promotion policies for employees, training and skill development of employees

Boards' Role in Embedding Shared Purpose

Examining board and corporate responsibilities in an era of pressing global challenges

As part of the Directors Development Program, Namrita Jhangiani, Egon Zehnder hosted a fire side chat that looked at corporate responsibilities in an era of pressing global challenges, in a session titled"Boards' Role in Embedding Shared Purpose". The discussion featured Jill Ader, chair of Egon Zehnder, whose work focuses on unlocking CEOs' potential and using leadership as a force for good in the world.

The Benefits of Finding a Shared Purpose

Today, countries around the globe are facing no shortage of challenges. Increasing damage from climate change, soaring costs of living, and widening inequality are all taking their toll, made worse by the continuing impacts of the COVID-19 pandemic. At times like these, there is understandable cynicism in businesses' capability to adopt a wider purpose and find solutions to these challenges. But businesses do have that capability, and according to Jill Ader,"it's a capability in board directors and leaders that needs to be encouraged if we're going to have any impact."

> "It's the overarching thing that connects us to something bigger"

That encouragement might take some work, Ader noted. Looming large in any such discussion is the stereotype of the "feel-good" company initiative that has no real-world impact, and may even damage the business's reputation, like accusations of "greenwashing" in the climate space. But taking on an important purpose doesn't have to be just lip service to ideals, and nor does it have to put a company's reputation or revenues at risk. A shared purpose can serve as a common driver, motivating employees and stimulating creative thought and problem-solving.

"Purpose is the big driver," said Ader."It's the overarching thing that connects us to something bigger than us as individuals, bigger than us as companies. It challenges us, and I think there's enough evidence to say you do get better profits because it leads to higher engagement of your people."

It can also help retain that talent. "What we're finding now is people are attracted to join organizations and the boards of organizations that have a strong and valid purpose," said Ader."The companies who followed that purpose and their values during COVID are retaining their people and attracting more people."

And studies show that when people have a purpose, they are healthier, more resilient, less likely to have burnout, and feel more fulfilled. "And I would translate that to an organizational level," said Ader."Our organizations become more resilient with a purpose."

Defining purpose and what it takes to make change

What is "purpose" when it comes to the business world? The answer is broad, but according to Ader, "it's making meaning of what we do…It's sort of an inner compass that gives you that momentum toward something that's worth going for."

Ader shared an example of a CEO who focused solely on quarterly reporting and shareholder returns. This was not "purpose"—it was all about profit, and, not surprisingly, this CEO had difficulty inspiring his employees. "He just fundamentally missedthat that's not an intrinsic motivator for many people," said Ader.

This sentiment gets the conversation around “stakeholder” capitalism supplanting a pure focus on shareholders; in other words, using a business to fulfill the needs of employees, customers, communities, and even the planet.

Ader shared another example, this time, a positive one: Novo Nordisk, the Danish pharmaceutical company. “Their purpose is to not just help patients with diabetes, but completely eradicate diabetes so the medicines that they produce won’t be needed,” Ader said.“So ‘purpose’ has to have some edge and some consequence to it…It’s bigger than all of us.”

Engaging both individual and corporate purposes

When asked about securing buy-in from employees for whatever purpose a company pursues, Ader recalled her own journey with Egon Zehnder. She believed the firm’s purpose—leadership for a better world—wasn’t precise enough.

“So I came in with an inclination to try and make it more specific, but actually, I was wrong,” said Ader.“What I realized over the last four years is it’s about engaging individual purposes and corporate purposes, and you can’t tell people what to be passionate about orwhat to care for.”

These individual purposes can range from increased diversity to a positive impact on the planet to mental health. The broadness of mission that Ader initially thought to change was what was allowing individuals to find their own connection to their work.“You allow people to find the motivation in that at a different pace or in different moments.”

Underscoring this idea is the concept of the “triple bottom line”: that companies should seek to maximize not just their profits, but also their value to the planet and their people. The companies that strike that balance well will be stronger in the long term.

Ensuring accountability in the pursuit of purpose

Customers, employees, and the general public will be able to see through a company that's only paying lip service to a particular purpose instead of committing to it. That's why measures of accountability and impact tracking are so important when choosing to pursue a broader cause.

"All of you sit in boardrooms, and you're the ones that can decide whether this is a passing phase or something that you are totally committed to," Ader told the audience.

Ways that board directors can ensure accountability include establishing an impact committee and putting well-respected people on that committee; tracking progress on goals; and finding executives who will "walk the walk."

"So if you have a well-intentioned purpose but you decide to appoint someone as CEO who does not embody that purpose, who is purely about profit, then you might as well write off your purpose," said Ader. "It's all the signals in communications and appointments that help bring that purpose to life."

Building a high-performing board

How corporate directors can create a culture of collaboration in the boardroom that drives results company-wide

As part of the Directors Development Program, Egon Zehnder hosted a session on the topic of “Building a High-Performing Board”, a wide-ranging panel discussion on what board members and leaders alike can do to build a productive and cooperative culture in the boardroom that ultimately benefits the entire company. Participants were joined by Ashley Summerfield, Egon Zehnder’s global CEO and Board Consulting Practice leader, and Rajeev Vasudeva, Chairman of Centum Learning Ltd and former CEO of Egon Zehnder, who shared what qualities they see in the most high-performing boards, and what individual members — regardless of prior board experience — can do to fulfill oversight responsibilities while also driving positive impact..

What makes a high-performing board?

Of the hundreds of corporate boards that oversee companies today, the ones that stand out are those that embrace the responsibility of a board to be more than a financial oversight mechanism.

“Boards can be a source of competitive advantage”

“I think the traditional view of our boards has been that you need a group that needs to supervise and control management who are really the agents of the shareholders,” said Vasudeva. “But I think that’s a traditional view and things have moved on. I think boards clearly are the source of competitive advantage, so they are no longer just looking at compliance and making sure that it’s legal formality that you need to discharge.”

Ultimately, it comes down to determining whether a board is effective or needs improvement. But what’s the criteria? “To my mind, the answer to the question is [whether] the board [is] consistently making good decisions that add value to the company,” Vasudeva reflected.

Agreeing handily with Vasudeva’s points, Summerfield outlined the concepts that he sees as key to board success. His take on making the board a source of competitive advantage was taken from a past client, who said that they, “tried to make the board a safe place, but not a soft place.”

“A safe place is the place where management feel they can share all their agonies, frustrations, worries and lack of confidence. So it’s very important management don’t feel the need to hide things or present everything as looking pretty because as we know, business is often very messy and it’s important that management are able to share that,” he said.

But making sure that hard decisions can be made is equally as important, he said. “If there is a problem, management shouldn’t feel that the board is just sort of comfy slippers that they can say for you. The board has to be a place that’s not soft and say what you’re going to do about these problems. We are here to support you, but we do need to address them. We can’t just have sympathy.”

The pair outlined five distinct characteristics of boards that are adept at answering the call of being more than just an oversight board, and being safe, not soft environments:

- **Have the right group of people**: Having players at the table who each bring different experience and expertise creates an ecosystem open to hearing a wide variety of views and able to take on problems with various lenses, leading to better outcomes.
- **Engage on the right concepts**: Boards, says Vasudeva, are only influential on 5-7 major issues that affect a company. Those issues can be different for every organization, but regardless of what they are, board directors must work to educate themselves, understand what the issues really are, and engage on them in the long term. Doing so leads to better decision making and greater impact.
- **Build chemistry**: Boards are collective bodies, and the most effective boards act like ones. Members cannot think or act simply as individuals sharing their expertise with a group for a few hours each month. It must be a group with chemistry, conducive to discussion and where independent views can be welcomed.
- **Get good information before the Board meeting**: Boards can only make good decisions with equally good information. Best practice is for management to share relevant figures and information prior to a board meeting and give members the chance to review them. Boards that simply hear information from a charismatic CEO, without prior documentation, lack the opportunity to process it and ask informed questions.
- **Have a good leader**: The Chair's role on a board is critical and often underappreciated. When leaders facilitate a discussion, encourage people to speak their minds, and help groups come to a consensus, it is a very significant role, and one that is not common amongst all leaders.

What topics an effective board needs to address

The session moved to what topics boards should spend their time addressing. Discussions are valuable, but they take time. Given that the board is limited in its time together, picking the right topics to spend that time on is something that both speakers emphasized.

> “important for boards to provide foresight as well as oversight”

Noting that topic selection is fundamental, Summerfield explained it doesn’t simply mean sticking to “hard” topics. “It’s important that boards provide foresight as well as oversight,” he said. “I think there can be a tendency to [ask] well, how was the last quarters trading or how was the last half year, which is important, but frankly can be buried in the board papers. The real reason for a board discussion is this idea of foresight, to [ask] what’s coming around the corner.”

Expanding on the point, Vasudeva split his board experiences into two categories: boards that spend time almost exclusively on finance and regulations, and boards that spend time almost exclusively on addressing strategy and the future of the business. He made it clear which was more valuable.

On those in which he spent most of the time reviewing finances, typically, he says, “There [is] a CEO presentation and a CFO presentation, and if things were all hunky-dory, the board asked a few questions and that was the end of the meeting. Was the board really driving value in in any of these conversations? Not to my mind.”

He contrasted that with other boards that proactively allocated time to address strategy and resources, talent, or management and succession planning. Typically, good boards, I would imagine, set out five or six priorities, which they calendarize and want to make sure that those topics are being discussed pretty regularly,” he said.

Of all the topics, corporate leadership is in a league of its own, says Vasudeva.

I think probably the most important role of the board is to make is to make sure that the right CEO and team is in place,” he said. “What conversations [are] the board having to make sure that they’re providing some feedback to the CEO? [Are they able to] have conversations around the performance of the CEO so that they’re not blindsided? In most cases, you find that where boards have actually failed is [when] boards have not spent enough time on evaluating and providing feedback to CEOs.”

Inside the boardroom: time and attendance

Time spent in actual meetings with the full board is valuable and needs to be allocated as such. “This isa gathering for a few hours every month or two,” said Summerfield. “It’s pretty precious airtime to have assembled the 12 to 15 people who are on the whole of the full board.”

Effective board chairs will make the most of the time by making sure the board only deals with premier issues while all others are delegated to committees or private discussions in advance. Doing so leverages the power of delegation to make sure that the board can spend that time on key issues. Much of this responsibility is left to committee chairs and board leaders to draw the boundary between committee and board.

The conversation then shifted away from leadership, and towards what regular members can do to contribute to an effective board. Key to this, said Vasudeva, is not bringing an aggressive or patrolling mindset to the meeting.

“Management often feels that the atmosphere in the boardroom is a bit of a ‘gotcha’ atmosphere where non-execs are taking their supervisory duties a bit too aggressively,” he said. “We are all especially senior, high-performing people, we’re all more sensitive than most of us acknowledge to each other, and the way in which a question is asked makes a big difference.” It makes the room come across hostile and creates an environment where management is often reluctant to share. High-performing boards don’t do this.

“The common articulation for a good board member is [to] keep your noses in, but your hands out,” said Summerfield. Members should focus on asking more strategic and high-level questions if they want to add value to the board, as opposed to hundreds of detailed questions.

It’s also important to “bring the outside in,” says Summerfield. “A lot of the board members come with different experiences [and] diversity of thought. It’s critical that you know there is a groupthink happening on the board. Are you bringing your experiences to the table?” he asked.

> “Very often the best board members are who speak little but add real value”

Speaking from his own experiences in boardrooms, he said, “Sometimes you’re wondering, you know, what am I saying? How are the people going to think about this? Is this really a sensible question? Sounds like a pretty stupid question if I knew this business well. But I can promise you, if you’re bringing an external view, no question is stupid. And it’s really worth asking because it can spark off a debate, which can take discussions to a different conclusion.”

As he wrapped up commentary before the question-and-answer session, Summerfield added one final note about board members on effective boards: they are usually the quiet ones.

“Looking good in a board meeting is not directly proportional to how much you speak or how much you dominate the meeting,” he said. “Very often the best board members are who speak little but add real value. The worst board meetings are where there are one or two board members who dominate the conversation.”

Structure & Rationale of Committees

How directors can understand the strengths and weaknesses of their board's committee system and use committees to advance company goals.

On July 15, Egon Zehnder held the latest event in the Directors Development Program series, imparting lessons on how directors can be more effective members of their boards. Moderated by Egon Zehnder's Darpan Kalra, this entry in the series was titled "Structure and Rationale of Committees," and it focused on how directors can understand the strengths and weaknesses of their board's committee system and use committees to advance company goals.

Keep Committees Focused and Lean

Discussion on board committees opened with words of caution: Committees can be effective sources of problem-solving and insight-gathering, but only if they are led and structured with a clear agenda.

"I feel the committee is as effective as the chairperson of the committee wants it to be," said Neelam Dhawan, a veteran IT industry leader who now sits on the boards of ICICI Bank, Skylo Technologies Inc, and others. "We may tend to go on a tangent very easily or spend a lot of time on a very minor issue...However, if the chairperson feels responsible for the agenda which has been put up to the committee, he or she then has to bring it back to track."

Dhawan emphasized the committees should be kept lean, without too many members, so that conversations can be meaningful and precise. This is vital on committees that enlist both executives and non-executives, as bridging these two sides in an engaging discussion can lead to wholesale company strategy changes if conducted effectively.

"More work gets done at the committee level than at the board level," Dhawan concluded.

Trust Is Essential

As members of a board, most directors probably feel comfortable knowing they are granted an uninhibited oversight of the company they serve, with visibility into its various components. But that might not be the case when oversight or decision-making becomes spread across committees. This dispersion of responsibilities means "you have to trust each other," according to Sumit Bose, who served in several government finance positions and now acts as an independent director for various companies.

"In committees, trust is even more important because everyone cannot be on every committee," Bose said. "So you might feel that you're blindsided as members of the board regarding a committee on which you are not a member." Bose said that committee chairs should consider it their duty to explain their committee's function to the rest of the board, so that trust can be sustained between members and non-members.

Voluntary participation in committees—ensuring that directors can join the committee that interests them—can also sustain that trust. Although, Bose noted that some regulations or laws may restrict who can join certain committees, especially on bank boards.

Trust can be built outside of the office as well. Neelam Dhawan relayed that before meetings on boards she's served on, directors would meet informally over dinner with executives and management—a practice that has unfortunately slowed due to the pandemic. "Hopefully it'll start again," she said. "I found that quarterly meeting over dinner was a very helpful way of just talking to each other, getting to know each other, as well as getting a relationship and trust built."

Who Should Serve on Specific Committees?

The optimal composition of board committees was a much-discussed topic.

"I think the committees should be driven by the functional head who will very clearly be accountable for that," said Kewal Handa, who serves as chairman at Clariant Chemicals and as a board director at several other companies. "For example, if it's a risk committee, the risk head should be there. If it's a customer service committee, the customer service head should be driving it. There is no compromise there."

Handa continued that business unit heads and others with expertise related to the committee's purpose should be included. But it doesn't stop at the company.

"You need to have experts from outside," said Handa. "And pay them well—there's nothing stopping you from paying for external experts."

Making the Most Out of Committee Conversation

Once the committee's composition is finalized and roles established, how should things operate in the actual meetings?

Neelam Dhawan brought up a strategy she learned from an earlier board role, in which at the end of each meeting, the board chair would ask each director in the room to give feedback on the topic at hand. "I realized that brought out everyone's thoughts that they had in that session," she said. "And it also added value to the executives, because they were also looking for feedback."

Sumit Bose echoed this idea: “The idea is the chairman of that committee should try to get as many people as possible to contribute.” But he also reminded the audience of the potential drawbacks in committees that are too large: “In smaller committees this is not a problem, but when we are seeing committees of the size of seven or eight, there will be a problem.”

Trying to solicit maximum member feedback can backfire for other reasons, Neelam Dhawan cautioned. “I normally find board members are not shy in contributing to the discussion in the committee—especially those who have just become board members after finishing their executive life,” she said. “Sometimes feel they can do better than the executives. So they start saying, ‘Well, I would have done this better’ or ‘Have you looked at this?’ The way they ask a question is like telling the executive they’ve not done a good job.”

This runs counter to the board’s purpose, which Dhawan described as having a conversation and asking questions in a way that makes management and executives think on particular lines. And in committees, which are frequently made up of people who are not positioned at the company’s highest levels, such domineering attitudes can devalue the experience.

Kewal Handa agreed, and referred to the “pecking order” which may inhibit lower-level members from contributing their thoughts. “You need to break that pecking order,” he said. “And it is the leaders’ responsibility to bring that culture of transparency and openness. That’s how the engagement improves.”

Evaluating the Committee's Performance

Just as how at the board level, directors are evaluated and feedback is given, at some point, a committee needs to be judged for the insights and work it has done. "But I'm afraid that at the committee level there is no such evaluation," said Kewal Handa. "Who will evaluate the committee? It's a very critical point."

Handa recommend that boards establish a formal process to evaluate their committees. As part of this, he noted that in a previous role, the minutes of committee cataloguing their various deliberations were not delivered to the larger board. "So as a good practice, what we did was we changed that and said that discussion and deliberation had to be presented by the chairman of the committee to the board," said Handa.

Designing Effective Board Processes

Corporate directors exchange on optimal processes for an effective board operation before, during, and after the meeting

On July 22, Egon Zehnder held a session on “Board Processes” for board directors of India’s top public sector banks. Part of the Directors Development Program, the event featured a conversation between Vineet Hemrajani, who is the Managing Partner of the Egon Zehnder India offices, and Sanjiv Sachar, formerly of Egon Zehnder and now on the boards of HDFC Bank and KDDL. The discussion illuminated a multitude of methods for building more effective board processes, from optimal meeting scheduling to best practices for recording minutes.

Scheduling Board Meetings

One of the first questions posed by Vineet Hemrajani was: How frequent should boards meet over the course of a year? It’s become a complicated question, and Sanjiv Sachar said the thinking on it has “evolved.” That’s because the typical schedule of a smaller number of expansive meetings that last entire days has a big drawback: “The feedback was that the day was too long and, let’s face it, after a certain number of hours there’s a fatigue factor,” Sachar said.

This "fatigue factor" can result in directors tuning out of discussion and not asking the relevant questions or developing the proper insights. "Which is very unfair, very unprofessional, and not what the role of a board member should be," Sachar said.

Instead, Sachar recommends scheduling half-day (or shorter) meetings that cover more focused areas or topics. Full-day board meetings can be reserved for bigger topics, like discussing quarterly results.

"Out of the 11 meetings that we have, four will be full days," Sachar noted of his own experiences. "The balance are half-day meetings."

Setting a Well-Balanced Agenda

Before any board meeting even starts, leaders should develop a specific agenda that touches on the angles that the given topic demands. Sachar calls this a "well-balanced" agenda—for instance, an agenda that allows discussion on a topic's operations angle, compliance angle, and strategic angle.

Sachar recommends that the board chairman gather inputs about what to discuss before each meeting. These inputs can come from board directors, but also management representatives, shareholders, or independent directors. Of note is that some board charters mandate certain agenda items be discussed at certain times, so more open-ended topics should be scheduled around those mandates.

Just as important is making sure the agenda allows for adequate time for each of these aspects. "Because if you don't allocate the right amount of time, then you are going to rush," said Sachar. "You're going to have many, many agenda items. Then it will become a tick in a box."

The timing aspect should also take into account questions from the directors, which may end up extending discussion longer than originally anticipated. Allowing space for these discussions is another reason the thinking on meeting scheduling has evolved, as discussed above.

"Let's not restrict ourselves to having that once-a-quarter board meetings," Sachar said. "Frankly, that will never work. You will always be pressed for time. And you will always miss certain points."

Keeping Committee Deliberations in Committees

One of the issues raised about setting efficient agendas was regarding board committees and subcommittees. An audience member asked what to do about committee deliberations taking up time in board meetings—for example, when a director wants more information about a committee decision they weren't privy to, even if board time wasn't allotted to that subject.

Sachar said that it is crucial to build trust between directors, which can allow decisions to be made in committees even when every director won't be familiar with the exact proceedings. "Because if you were to again have the same proceedings in a board meeting, then it's an absolutely waste of time," he said.

It's also a sign that directors haven't built trust with the committee, which should be reconciled. "Look, we rely on our colleagues to debate these issues because these are people who have the expertise in their respective areas," Sachar said.

Preparing Board Agenda Papers

The board's agenda papers are critical tools for running an efficient meeting. Sachar says the papers should be sent to the board no later than seven days before the meeting. And once directors have them in hand, they should take quality time to read through and absorb them.

"That is very, very important, because a number of times I've seen that information was there with us in the papers, but we didn't bother to go through it," Sachar said. "And we are jumping to ask the person who is making a presentation a question, and the person says, 'Just wait, two slides later you will get your question answered.'"

One way to help this along is giving a summary in the papers and before the presentation, telling directors exactly what decision or change the discussion will focus on and boiling down potentially hundreds of pages into a core information brief.

"For example, if there's a change you're recommending, it's important to indicate upfront why this change is being made," Sachar said. "Highlight where the change is. And you can then indicate that look, if you want to, if you have the time, then you can read the entire policy. But this is where the impact is being made."

Recording Meeting Minutes

A meeting's minutes may seem like an afterthought, but the work required for them must be painstakingly precise.

"I think minutes are an area where there is a lot which needs to be done," Sachar said. "There has to be extensive training for people who are going to be capturing the information of the minutes."

Minutes must capture the meeting's overall discussion, but also the words and ideas of individual directors. They must chart the flow of how the board came to make a decision, as well as document any dissents to that process. This is how many regulators evaluate corporate governance, Sachar warned, and problems may arise if minutes are not well-captured.

"Even if I was not in that room, I should be in a position to get the sense of who said what, why did this person say this, and what was the question asked," Sachar said. "So one of the things that we insist is that the secretarial department, the people who are capturing the minutes, should go through a very formal training."

Boards are typically sent a draft of the minutes after the meeting. Sachar recommended that directors carefully read over this draft and make comments where they feel something was left out or incorrect. "I will go through those minutes and if my views are not expressed, it is going to give me discomfort."

One new element of the minutes system that was brought up is the recent trend of video recording board meetings, as more action has moved to online spaces. This may have the effect of making the classic idea of minutes unnecessary, but also brings up other issues. One audience member outlined how directors' heated debates may be softened in the eventual minutes in order to present a better picture to outsiders, but a recording leaves no such room for downplaying disagreement—and this may inhibit debate.

Sachar said that recording or not, directors should not restrain their own voice. "If you've taken on a board membership, you've taken on a board membership to be independent, so be a professional and express your views or what you feel should be the decision," he said. "Even though you may be in minority, do express your view. I

Developing the Necessary Secretarial Infrastructure

Vineet Hemrajani's final question to Sanjiv Sachar was about how to "make this all happen"—the process of communicating meeting information to directors, timing the agenda, running presentations, recording minutes, etc. Who should be responsible for ensuring all of this runs smoothly?

"If you want to ensure that all the aspects of governance that we've been talking about are properly handled…there has to be a very clear-cut sort of infrastructure," said Sachar. This is the secretarial infrastructure, and Sachar said that it should be comprised of multiple people with different responsibilities. And team members' backgrounds should not just be in secretarial work, but law and regulatory work as well.

"Let's not confuse this with just purely administrative work," Sachar said. "This is not someone who's going to call up and say, 'Just to let you know, the meeting is on so and so date'…These are people who would be in a position to tell you what the charter of each of these committees are, who will tell you that these are the changes in the law, and therefore we need to have a meeting, for example."

Training for such positions should be constant, with each person constantly "upgrading their knowledge"—a responsibility that board directors themselves should assume as well, as Sachar said in closing.

"There is a trap that each one of us falls into initially when we get inducted onto any board," he said. That is, one can be brought onto a board because of his or her expertise in a particular area. But if a director only participates in discussions about that area of expertise, and doesn't take time to learn about new areas and contribute to those conversations, they are doing themselves and their companies a disservice.

Said Sachar: "I may not be an expert, but if I don't apply my mind, if I'm not asking those questions, if I'm not concerned about the discussion, then I'm not playing the role of a board member."

Role of the Chairperson, Good Board Governance and Managing Dissent in the Boardroom

A wide-ranging discussion of important issues that impact the successful functioning of a board

As part of the Directors Development Program, Namrita Jhangiani, Egon Zehnder, hosted a panel discussion on the subject of "Role of the Chairperson, Good Board Governance and Managing Dissent in the Boardroom". What ensued was a wide-ranging question and answer session with panel members S.S. Mundra and Deepak Satwalekar on important issues that impact the successful functioning of a board. S.S. Mundra is the chair of the BSE (Bombay Stock Exchange) and earlier was the Deputy Governor of the Reserve Bank of India (RBI) retiring in 2017, and previously was the Chair and Managing Director of Bank of Baroda. Deepak Satwalekar was the Managing Director of HDFC Limited, and then was the Managing Director and CEO of HDFC Standard Life Insurance Company Limited. He has also worked closely with the RBI and chaired several RBI committees on Corporate Governance and public sector banks.

What are the three attributes of a great chair?

Satwalekar listed the ability to manage from different points of view, a willingness to "leave the ego at home" and most importantly, the ability to be a team leader. Chairs must see themselves not as top of a hierarchy, but as a "first amongst equals. It's not a dominant role that you have as much as a coordinating role."

Mundra's top three attributes: An ability to facilitate collaboration between management and directors, previous experience as a CEO and finally, a skill that might be more difficult to quantify: "I think the person who is going to be chair of the board should be quite comfortable in themselves. And when I say comfortable, it means they have a passage in life and career where I think now,they're not looking for anymore achievement or anymore, say, crowning glory kind of thing. They have done whatever is to be done so comfortable in their skin."

How can a chair secure alignment in the boardroom? What if the chair and CEO disagree?

The topic of managing difficult interactions is one that both speakers agreed is a constant challenge. The structure of boards has morphed over the years so that what was once a monitoring or controlling entity is now more of a partnership. But with that evolution has come an expansion of debates that can sometimes become counter-productive. The ability of a chair to secure alignment – especially when the debate is between the chair and the CEO – emerges as a critical skill.

The key to achieving alignment, said Mundra, is preparation. A chair must spend time preparing, designing and managing the meeting agenda, understanding the points where there may be a difference of opinion. The chair must conduct discussions ahead of the meeting to discover common viewpoints. These are the building blocks that will be necessary to securing alignment. "You pre-empt it, rather than try to deal with it when it has happened," he said.

And when the debate is between the chair and the CEO, the chair must internally recall his role in the larger scope of the business, said Satwalekar. "If an ex-CEO migrates to becoming the chair, they've got to leave that baggage behind. The realization that they are no more the CEO has to come in first. If it doesn't come in, you got a disaster on your hands. It cannot work. So that's the reason why I said the chair has to shed any ego that they have of being the driver. They are first amongst equal even amongst the board members. But having said that: how do you build up that rapport? The CEO must believe that the chair is not there to trip them up -- that the chair is there to help grow and support the CEO."

Satwalekar contributed his own personal example as an illustration. An important element to securing alignment is to be clear from the outset your own parameters, he said.

"I'll give my own personal example. I was once asked to be a nominee director of a multinational… international financial institution. And I said I have never been a nominee director, but I'll go there on two conditions. One is that what gets discussed at the board will stay at the board. I will not come and brief you on what got discussed. You may hear it as a shareholder from others, but not what got discussed in the board. And the second is if there is a decision to be made between the interest of you as an investor and the company, I will vote for the company. If those two conditions are acceptable to you, I'm happy to become a nominee director, and I think that's important for you to understand where should your loyalties be once you become a director. It's a huge responsibility to all shareholders, not to one class of shareholders. You cannot say that I will look after the interests of this group and ignore the others. It has to be all shareholders, all stakeholders that you need to look at."

By stating important parameters up front, it reduced debates and disagreements going forward, he said.

How to you handle the challenge of time management?

Regulation and how to manage the time it demands is a constant issue for boards. A chair must organize efforts so that issues of regulation do not overwhelm all meetings. Mundra addressed this issue by laying out a three-point strategy for efficient board time management.

- First, beyond regular board meetings, there should be at least one board meeting scheduled that is purely devoted to discussing strategy. This ensures strategy secures sufficient time and attention and is not pushed aside by other pressing matters.
- Second, a board must use the committee structure. Delegate items and issues to committees. That way some issues can dealt with in committee and will not take up valuable board meeting time.

agreed, individuals must come to the position with certain innate qualities that will make them successful in the role.

Skills can be acquired over a time of running a company. This is where the necessary skills of running meetings, dealing with conflict, creating alignment and managing will emerge.

But to be a successful director, these technical skills must be paired with broader abilities. A director must have confidence – to ask the right questions, to get others to ask questions, to engage at thinking on a higher level. They must be individuals who have a wider view and the ability to achieve less technical, “next level” thinking.

What are the best ways to manage dissent?

Disagreements will happen. It is inevitable. On any board, you will have knowledgeable people and strong personalities. People will have different viewpoints. The key to managing disagreements, said Satwalekar, is to ensure that you yourself do not become disagreeable.

“Disagreeing is not a bad thing,” he said. “If you are a good leader, you did welcome dissent within your team. People should have been free to express their views. Disagreeing is not a bad thing, being disagreeable is a very bad thing. So, I think that’s the decency that we need to bring into the boardroom. And you need to be able to express your views without picking up a fight. I think when you say that people have to go and express a dissenting vote. To some extent I think it’s a failure of the chair. That someone had to vote against, means he/she did not get convinced about what the rest of the board was trying to say, and they had to express it in that way. That’s not a good thing to happen.”

Becoming a Highly Effective Board Member

A framework for corporate directors to unlock their full potential in and outside of the boardroom

On May 6, 2022 Egon Zehnder held a session on **“Foundation and Framework to Become a Highly-Effective Member of the Board”**, for board directors of India’s top public sector banks. Egon Zehnder consultants Darpan Kalra, Vineet Hemrajani, and Ashley Summerfield walked attendees through a discussion of what makes a high-performing board, and what directors and chairs should understand about their positions and how that relates to their company’s and shareholders’ success.

The discussion was broken into two segments: the “what” of a high-performing board (i.e., understanding the role of the board and its agenda) and the “how” (i.e., the dynamics of the boardroom and how it should operate via personal interactions and styles).

What Is the Role of the Board?

A board can take on many different responsibilities, but sometimes excess attention is placed on some items at the expense of valuable other ones, according to Ashley Summerfield. "What we typically find is that boards spend a little too much time on what you might call the hard stuff—the money, cash, balance sheet, margins, earnings—and probably not enough time on what is regarded as the soft stuff, like values, culture, people issues, incentives or aspects of the workforce, staff engagement, this sort of thing," he said.

Summerfield cautioned that high-performing boards should spend more time on these "softer" items, and drew a connection to this imbalance of attention and another related to many boards' focus on past issues. "Boards tend to look in the rear-view mirror—how was the last quarter, how was the last half year?" he said. "And actually, the real role of the board, as one of our clients summarized, is foresight more than oversight." He likened this mindset of balance to a plane's flying altitude: The board should be flying low enough to supervise what's happening on the ground, but high enough to grasp the larger picture while letting management run the business.

Going from the macro view to the micro view, Vineet Hemrajani expounded on what individual board directors should understand about their role. He outlined five "hats" an effective director should be able to wear:

- **Be a challenger:** In a positive and constructive way, a great director will challenge what management is saying and take on the role of a "counterpoint" in order to ensure decisions are thought out strategically instead of relying on conventional wisdom.
- **Take a strategic view:** Hemrajani recognized that diving in the details matters, but sometimes, being able to zoom out and take a high-level view of a company is more important—something that managers too close to the ground may have trouble with.
- **Understand risk:** Possibly as a function of a lack of "risk orientation" by boards in the past, today, Hemrajani said that boards are too focused on risk. Yet he recognized that focus is here to stay, and directors should see evaluating risk as a pivotal part of their roles.

- **Watch out for shareholders' interests:** Directors represent shareholders and should always be asking whether a company decision makes sense for them.
- **Guide company culture and values:** Recalling Ashley Summerfield's advice to pay attention to the "softer" issues, Hemrajani said that directors should provide guidance on company culture, people, and values.

Ashley Summerfield added, "The only thing I would say is it's important for the director not to be a yes man or a yes woman. Ask whether everything on your mind—all your views, all your judgements, all your sensitivities—is getting out in the room…It's important to keep looking in the mirror before and after board meetings and say, 'Did they really hear what I really think?'"

How Should a Board Operate?

The second half of the discussion revolved around board dynamics, illuminating not just what a board or director should be doing, but how to do it.

In response to a question about directors' issuing "dissent" against management decisions, Ashley Summerfield clarified that directors should instead approach such lines of questioning as in service to achieving a broader consensus. Effective directors should recognize that they are members of a whole, and that the best boards work as a team.

"I would try to get away from the language of dissent and more to get to the language of seeking the best answer together, which I realize means sort of tough questions," Summerfield said. "Dissent to me sounds almost like one is trying to win a side of an argument, and I don't think it's as simple as that with boards. I think it's about getting to the deeper truth of what's going on."

Maintaining a high quality of discussion is also vital in the boardroom. To do so, Vineet Hemrajani extolled the importance of planning the meeting far out in advance and setting an agenda up to four quarters ahead of time, while being flexible enough to incorporate new proposals as they come in. This helps with the "information flow," and making sure the directors aren't overwhelmed with too much material at too late of a date. A key component of this is also giving directors succinct issue summaries, so they can spend a few hours getting up to speed rather than wading through thousands of pages of documents. Ashley Summerfield added to this point:

“How many times have you read a board paper and asked yourself, what am I supposed to do with this?” said Summerfield. “And it sounds very simple, but one of the most important board processes is at the top of each paper to say what is actually being asked of the board. Is it to approve something, is to provide wisdom on something so it can be more fully cooked, is it important general background? I’ve been amazed over the years how often board papers were assembled without actually telling the board what the directors are supposed to do with it.”

Board Effectiveness encompasses Good Processes and Dynamics

Board Committees

- Delegated Authority
- Committee composition and dynamics
- Team process / information flows

Key Governance Topics

- People Succession & People Processes
- Company Strategy & Performance
- Capital and Risk
- Stakeholder Relationships
- External Environment

Board Processes

- Number of meetings
- Agenda setting
- Annual cycle
- Information flows
- Reports / minutes
- Crisis management

Processes

Behaviours

Board Engagement and Board Balance

- Quality of discussions
- Engagement
- Feedback

Board Alignment

- Composition
- Diversity
- Experience

Key Governance Topics

- Shareholders
- Executives
- Other Stakeholders

These are tips for how directors should operate inside the boardroom. But what goes on outside of meetings is just as important. “The board is a board every day of the year, and you don’t have to wait for a board meeting to clarify a confusion or a misunderstanding,” said Ashley Summerfield. He continued to say that the best boards operate under a philosophy of roaming across responsibilities and areas of expertise, so important contributions aren’t silenced because directors feel like they can only speak to issues relevant to their committee, for example, or what’s discussed at formal meetings. “People often forget what happens between board meetings is easily as important as what happens at the board meeting,” he said.

What Makes a Great Board Chair?

The final area of discussion revolved around board chairs and their specific role and ways to be more effective. Participants noted that the chair is not just a director with added responsibilities—they are leaders, architects of the board’s processes, and designers of the board culture.

First, on being an architect of the board’s processes: This is not just about chairing a meeting. In a discussion about delegating responsibilities between the board at-large and its various committees, Ashley Summerfield highlighted a chair’s critical value in enhancing this process. “A really good chair will have worked out precisely where to draw the delegated authority between committees and the whole board to get the leverage such that the precious airtime of the full board is only used for the most strategic items,” he said.

The chair’s role in board processes can take many other forms, including making balanced, focused agendas; counseling the CEO and executive team; monitoring goals and targets; and managing external stakeholders.

The Chair plays a critical role in driving Board effectiveness

Chair's role

Holds to account	• Sets expectations for Board and Management • Monitors delivery of strategy and achievement of targets • Ensures that building bench strength and succession planning is top of CEO's agenda
Chairs the meetings	• Due process • Quality and timeliness of information • Balanced, focused agendas • Sets a constructive challenge and collaborative tone • Draws out contributions, builds consensus and promotes challenge
Acts as sounding board	• Builds relationship with CEO • Provides counsel to CEO and the wider executive team • Maintains independence of judgment • Supports long-term succession planning
Connects and Manages stakeholders	• Manages external stakeholders, in aligning differing agendas: — Investors — Regulators — Government — Media — Customers
Leads the Board	• Builds and maintains a fit-for-purpose Board • Secures Board alignment • Sets Board culture, promotes collaboration and openness to challenge • Maximises value the Board adds to the business

Board chairs aren't just responsible for such "hard" processes—they are also lead designers of "softer" issues such as board atmosphere and culture. Chairs should present themselves as a safe outlet where management and executives can be open and transparent about issues. This also extends to directors; chairs should get to know their individual directors to understand their personalities, what's important to them, and where they may fall in any given issue. This allows a chair to build a better atmosphere during those debates by giving directors room to speak if they may not otherwise be getting through.

Ashley Summerfield said that this can be done by maintaining personal interactions and discussions with directors outside of the boardroom. “As an example, I would expect a good chair would have private cups of tea with each director one-on-one, maybe twice a year, something like that,” he said. “Just to see the more subtle things, the mortar between the bricks, what’s actually on their mind about the company.”

Creating a culture of openness and transparency is a critical part of a chair’s role—it not only builds a better board, but as a result, a better company.

The Role of the Board in a Crisis and Dilemmas in Corporate Governance

Managing crises from the board's perspective, and how the chair and members can play a role in mitigating negative outcomes

As part of the Directors Development Program, Vineet Hemrajani, Egon Zehnder hosted a fireside chat on the subject of "The Role of the Board in a Crisis and Dilemmas in Corporate Governance" with Sunil Mehta, a veteran of banking and financial services in India with unmatched experience straddling the public and private sectors. Mehta is currently the chair and managing director of SPM Capital Advisers Limited, and has previously held leadership roles with YES Bank, Punjab National Bank, the State Bank of India, and AIG. The in-depth discussion focused on how board members and leadership can strategically use their roles in corporate crises, and the challenges that are innate within governance structures of corporations of all sizes.

Managing crises on a board

Mehta began with no hesitation in sharing what many seasoned directors know very well: crises are all consuming, and most of the time, they are impossible to see coming. "There is never a point in time that you can anticipate that there is a crisis that is going to come and hit you," he said. "So, you've got to be fully prepared for

[one] as a board or as an institution for the unknown-unknown risks … I think that's really what my key learning has been during all the situations that I have faced."

He offered an example that he encountered early on in his leadership career at Citibank, in the early 1990s when there was heavy focus on securities issues and scamming in the banks. In his role as the Joint Parliamentary Committee Manager, he was asked to analyze how the crisis could be solved to the bank's advantage. It was a particularly volatile situation, given that he and his colleagues had limited understanding of managing a crisis and were in a particularly volatile position, under scrutiny from the government and the public alike. "[It] was a great learning that you have to be fully prepared. And you cannot sort of be sitting as focusing entirely on business, you've got to focus on understanding the regulatory environment, you've got to be sensitive to where the questions will come from, how the financial system is seen such an integral part of the country's economic stability," he said. The experience, in which he prepared for depositions with the committee and fielded hostile questions from the opposition on Citibank's behalf, led him to give the valuable advice to the audience that, "[when] engaging with the external environment, any financial institution in the country has to be fully prepared, to be open to any kind of deposition or any kind of investigation or opening up their books and making sure that there is a high level of transparency that one has maintained inside the institution. And that there is no act that you have committed which is seen as being 'grey' from a regulatory standpoint, because banks are required to comply with both the letter and spirit of the law"

Mehta then moved to another example years later, during the financial crisis of 2007-2008 when he was the Country Head of AIG India, responsible for the fate of 13,500 employees and 10 different verticals, all of which faced intense scrutiny after the fall of Lehman Brothers. The questions at the time, he said, were how AIG India was going to protect their employees and those in the market, while also maintaining regulatory compliance so that the local regulator maintains confidence and support. Mehta made it through that crisis with local support and with a $182 billion bailout from the U.S. but credited it in part to the goodwill built up with regulators, something that was key in that moment of crisis. "This aspect of the local regulator being primed and making sure that the local regulator supports you was amazing," he noted.

What is the role of the board chair in a crisis?

In a crisis, the board's role is just as critical as that of management, if not more so, said Mehta. "In all [of my experience], my major learning on this is that the role of the board is absolutely paramount. I mean, there's no second way about it," he told the audience. Elaborating, he said that each member of the board has a different responsibility in a crisis.

For the chair, the core responsibility must be to revert back to its foremost responsibility: being a fiduciary body, and the responsibility that it carries with all stakeholders. "You have to really roll up your sleeves and not just go based on what was given as the principal responsibilities," said Mehta. "You have to give support to your management team, which you can imagine is under immense pressure from all stakeholders that they are dealing with. You as an independent board chair perhaps have some ability of being able to look at things in a different perspective and provide them the support that is required in making (difficult) decisions."

Key to the chair's actions, however, must be the understanding that crises, though unfortunate, are encountered by every board, and the chair's roles and responsibilities are equally as important in times of crisis as they are in calm times. "If we have taken the responsibility of being a board chair there will be good times, there will be bad times, there will be good news and there will also be sometimes some bad news that can happen. The most important thing is that you really have to, at that situation as it demands, give it your whole thing, because you know that it is the most important piece of salvaging the reputation of the institution and whatever it takes to engage with the employees or external stakeholders to work the way out, and you have to actually prioritize what is it that requires immediate attention."

Board member's roles in a crisis

The full board's efforts are equally as important as the Chair's, said Mehta, though it might feel somewhat out of place given that under normal circumstances, regular members may not be as active as their counterparts in leadership. "When you have your backs to the wall, everybody pools in," he said. "Everyone stands up and everyone plays a role." In his experience, a key component of that is having board members that are willing to dive into the work that needs to be done and, “forget the theoretical stuff,” he said, referring to the typical niceties of board work.

In a crisis, members will also be called to perform oversight responsibilities that could be overseen by regulators and other governing entities. For Mehta, that was the case as his institution was weathering the PNB crisis, when the board was faced with holding executive directors accountable, and members were ultimately the ones to look at all of the facts and decide on management’s future. In moments like that, it is absolutely imperative, he said, that members undergo that responsibility with complete integrity. In those situations when you are dealing with people’s lives, reputations, and professional careers, it can have enormous implications for them. “The important element as a board member is you have to take your job very seriously and not be swayed by what could be the easy way out of just putting somebody on the block,” he said.

A board's role in building talent and culture

Kalpana Morparia speaks about best practices for board culture, and her experience as a leader who is constantly improving

As part of the Directors Development Program, Darpan Kalra, Egon Zehnder hosted a fire side chat on the subject of "The Board's Role in Developing Leadership Talent and Culture," with Kalpana Morparia, former CEO of JPMorgan's South and Southeast Asia division from 2008-2021 and former member of JPMorgan's Asia Pacific Management Committee who also previously held several high-level roles at ICICI Bank. The comprehensive discussion highlighted best practices for board culture and some techniques Morparia adopted during her career to improve it.

Best Practices for Board Culture and Leadership

The conversation began by diving into Morparia's take on the most important aspect of a board when it came to leadership and culture. For her, the nomination and governance committees are at the top of the list because of their focus on human resources, compensation, and talent development. "In terms of people, the talent that we want, the culture that we are imbibing in the organization, I would say that the nomination and governance committee actually carries a huge, huge burden," she said.

But what are some of the best practices for the nomination and governance committee? Of the five or so meetings that it might have in a year and all the standard business that the committee had to do, one of the most important things she did on her board was to review the company's talent below the board level. "There is the board, there are executive directors on the board, and then some people have an executive committee or a management committee or a senior leadership committee, multiple names, but basically it means a group of senior executives and at least two levels below them."

On the board of Phillip Morris International, where she is director, the group executes that via the compensation committee, which is layered under the nomination and governance committee. The compensation committee, she explains, "goes through a full slate of the next line of leaders and the next line of leaders. And then you have which all of you are familiar with ready now successors, ready later, what are the developmental areas, how is mobility working in all of this and whilst we don't, they may meet some of these senior managers in the course of our board meetings and committee meetings."

"The key task here is not just merely knowing what these names are, what they've done so far, and what your future plans are, but what are the interventions that we're going to be doing as a company, as a bank, in terms of ensuring that they get all of these driver skills to really get them up to the next round," she said.

Building Strong Cross-Functional Leaders

Carrying on with the theme of development and future leadership, Morparia spoke to the audience about three different best practices that prove to be effective in leadership development:

- **Feedback on leadership development.** The most important aspect of Morparia's own personal development was getting feedback on her work from not just executives, but also peers and employees. At that level, she said, "We care less about how we are perceived by our bosses, but certainly we should care about how we are perceived by our team members and our peer group. So that (feedback) I would actually rate very, very highly."

- **"Skip" level meetings.** It's common for leaders to address employees in town halls or other large gatherings where they can ask questions in a large, intimidating setting. But while Morparia was at JP Morgan, "skip" level meetings would take place when they "skipped" a level of management and met with the level below over breakfast or lunch. Because informal settings are much more conducive for people to articulate their thoughts more openly.
- **Resource groups.** Morparia acknowledged that resources and networking groups aren't always favorites, but also that they were opportunities for people to open up more than they would in other professional environments. "[People] network and learn from each other's experiences so well that they actually act as a great support system going forward."

Key Elements of Board Culture

According to Morparia, a bank's board is an integral part of the entire organization's culture and it affects the organization internally and externally. "We are the core, we are the lifeblood of the economies that we are operating in … the purpose identity for state-owned enterprises, I think it's phenomenally way higher than a private sector entity." Of course, making money and giving returns to shareholders are important, but for public sector banks who work with individuals and small businesses, the purpose of their work is much more than just money, she said. "The board can really feel blessed that they are a part of this ecosystem where people are [working] day in and day out for a much higher purpose than just giving a return to their shareholders. Whether it is rural banking, whether it's agri-banking, whether it is setting up a huge network of branches all across the length and breadth of India … I think you're truly blessed as an independent board."

> "Culture pervades the entire organization,"

Embracing a culture of higher purpose in public banking organizations is something that the board needs to participate in holistically, not from the standpoint of it being top-down or bottom-up. "Culture, I think, pervades the entire organization," she said. "I think we actually identify so much with this higher purpose of the responsibility that lies on us because people's life savings are banked with us. You remember the word banked, right? It means it's with my bank. I trust it completely. I can draw it when I want," she added.

But she cautioned that while important, a culture built on trust is a reason for being careful. Building trust with people is something that takes decades, and often centuries, but can come crashing down with just one misstep. Morparia offered the example of the Lehman Brothers' bankruptcy as the most notorious case of this, when excessive risk-taking without appropriate controls leads to an ultimate failure and the erosion of the work of thousands of people and trust across the globe. "The minute this shakes, even in one tiny organization … Even if it happens in a tiny place somewhere else, it kind of shakes the fabric. So that's probably the only [thing to watch out for]."

The Importance of Getting Feedback

> "One way ....is to bring on an external agency to periodically review the board and its members and offer feedback and evaluation."

Being a director or board member, said Morparia, is often initially a struggle for people used to being executives, because executives are accustomed to managing and solving problems directly. "But that's not your job as an independent director … this is why I'm a great fan of feedback," she said. But the first stipulation of feedback is that it needs to be honest, not just checking a box. Within most boards, she says, "We are encouraged to put comments. Some people are just lazy about putting comments, and when it comes to giving peer feedback, we are all nice people, right? And we want to be nice to other people as well."

This kind of feedback often is not helpful, and results more in the perpetuation of the status quo than any meaningful change or progress. One way of getting around it, she said, is to bring on an external agency to periodically review the board and its members and offer feedback and evaluation. The first time this happened to her, "it came as a rude shock to me," she said. "But it was an eye opener." That kind of feedback and constructive criticism is something that can make a real change and keep a board moving in the right direction. "This kind of feedback I thought it's very, very valuable," she said.

Anonymous 360-degree feedback works for this process too, though often not as well as external firms. Morparia painted a picture of its effectiveness with a first-hand experience that she had many years ago when her subordinates sat in a circle and gave her feedback, which she notes is one of the most memorable and constructive experiences she's had as an executive. "It happened 18 years ago, and today I can recall to you all the negative feedback I received. It was literally [like] holding a mirror, warts, and all," she said. "This is how you're perceived. You may think you're the greatest leader, the most empathetic leader, and people just love you. Well, the reality is very different. There are these aspects of yours that certainly people don't like … So, I'm a huge, huge fan of feedback."

The Board plays a significant role in developing the next layer of leadership and the culture that exemplifies its role of stewardship in all matters that relate to the shareholders, customers, employees and the communities that they are a part of.

Leading Practices of High-Performing Boards

Lessons learned and the future of board governance

As part of the Directors Development Program, Namrita Jhangiani, Egon Zehnder hosted a fireside chat on the subject of "Best Practices of High-Performing Boards." The featured speaker was K V Kamath, chair of the National Bank for Financing Infrastructure and Development and former chair of ICICI Bank. Kamath walked the audience through his career, sharing lessons on board governance and overall best practices for the event.

Lessons learned from the 'stark reality of failure'

Kamath opened the discussion by touching on important moments in board governance from his early career. But the moment that stood out was not one of triumph, but of disaster: the 2008 global financial crisis.

"I call it the stark reality of failure," he said. "And the underlying thesis was greed."

Kamath detailed how, at the time, several parties and financial institutions were divvying up subprime mortgages to package and resell—while at each step of the way, regulators and ratings agencies looked the other way at the problems arising.

He said that these failures taught him an important lesson about not falling prey to the forces that swept up so many in greed and paved the way for the ensuring global recession.

“This is where the role of board comes in, because ultimately the board is where the checks and balances are laid,” said Kamath. “Checks and balance are put into practice and you make sure that the checks and balances hold, particularly in times of challenge.”

Kamath expanded on the concept of the board being a company’s “check” by talking about overcoming an “owner mindset” in public companies—that is, when a company is publicly listed but the media and other sources still refer to a solitary “owner” of the firm.

“Even though this company is listed, you are putting ideas into the minds of these people by giving an idea this is a proprietary company and the owner is so and so,” he said. “When the company is public, to say that it is an owner owned or managed company I think is totally wrong.” That’s because such language can undercut the fiduciary responsibilities of the board, leading to poor accounting practices and “parallel books.”

But progress is being made on these fronts, Kamath explained, thanks to an expansion of the “knowledge base” that board directors can draw from. There is also more activism taking part on behalf of shareholders, who are now better able to raise red flags or issues with the board.

Disruptive technological challenges for banks

In speaking to an audience of bank board directors, Kamath brought up new challenges that are unique to the financial sphere. These include fintech and crypto startups, which are vying for competition with traditional financial institutions like banks.

Kamath connected these new businesses with the governance issues banks have been guided by for decades. “These businesses want to remain outside of any oversight mechanism, whether it is regulatory or otherwise,” he said. This stands in stark contrast to “regulated, well-governed” traditional financial sector.

In other words, the two industries are playing by different sets of rules. And according to Kamath, “We need to have a response at the board level, and the response I would think is: *We’re not going to fall in this trap and let them do what they want.*”

That means challenging the competitor’s technological supremacy, for one. But it also means staying the course with the sector’s tight regulations and oversight, so lax rules don’t create another financial crisis. “We have to be a bit careful that when we are looking at our boards, we take a path which is steady, which is consistent with the broad guardrails set by the government and the regulator,” said Kamath.

In this regard, Kamath underscored the difference between theory and practice. Boards can have all the rules they want, but if they are simply rubber-stamping policies without doing their due diligence, then they are not working for the good of the institution. “The point that that I’ve learned over my career is that you need to make those structures work in practice,” he said. “If we internalize that, we bring the best to the board and we will deliver what is expected of us.”

Comparing public sector banks to private sector banks

Taking a question from the audience, Kamath compared his experiences in private sector banks and public sector banks to explain if the former is truly nimbler and more efficient than the latter, as conventional wisdom would hold.

“I can say this openly: The quality of the public sector bank is on par or better than any private sector bank I dealt with,” he said. “The myth that you have got better people in the private sector is busted.” Kamath said the same of bank processes between the two, as well as their technologies.

“I think several public sector banks have demonstrated that their technology is as robust as the private sector,” he said, making the point that even if a private institution once set a benchmark for technological prowess, they would need to have kept up with each advancement over the years to stay in the same position—which many have not.

“People wise, technology wise, process wise—they are on par,” concluded Kamath.

Seeing things through to the end as a board director

To Kamath, longevity is essential for a board director. And that's not just because of the accumulation of institutional knowledge that comes with a long tenure as a board director.

"You need longevity because there are things that you may set in motion that need to be seen through," said Kamath. These could be ideas, new processes, or initiatives that require a board director's guidance over years to result in a successful outcome.

Such a long-term vision requires that a company be proactive in managing the growth of their talent, from recruitment to leadership preparation. Kamath said directors should ask themselves how they can best accelerate leaders through the organization and allow space for such visions to grow.

ESG and the Role of the Board

Shailesh Haribhakti speaks about the current state of ESG and what a board should do to ensure ESG goals are met

As part of the Directors Development Program, Egon Zehnder held a session on "ESG and the Role of the Board" for board directors of India's top public sector banks. Speaker Shailesh Haribhakti engaged attendees in a discussion of the current state of ESG in the global business community and steps a board must take to ensure the vital goals of ESG are met. Shailesh Haribhakti is a veteran of multiple company boards and is the author of two books, "The Digital Professional" and "Audit Renaissance."

Why ESG Now?

> "Leaders must find ways to ingrain ESG into the day to day guiding principles"

ESG has been a topic of wide discussion in the global business community for many years, but Haribhakti opened the discussion with a reminder of how vital the topic is in today's times. The top risks facing any company today can be categorized as ESG risks, he said. From heat waves in India to flooding in Pakistan to the gas crisis that may be looming as Russia and Europe face off over the fate of Ukraine. Leaders must find ways to transform ESG from a simple acronym into guiding principles that will be ingrained in our everyday experience.

What is ESG?

Haribhakti walked leaders through a robust explanation of the three letters in the acronym.

“E” is for environmental stewardship – a process that should resonate with all of us in a profound way, he said. Of course it is about reducing emissions and decarbonizing. But it is more broadly about biodiversity preservation and therefore, about all living things. “In some way or form, we are actually all connected. If we don’t realize it and operate from a realization that we are all connected, we will continue a destruction of biodiversity,” he said.

“S” is understood as social responsibility, encompassing the work of DEI, human rights and workplace neutrality. Already, we can see examples of this in action, he said. At Amazon.com, for example, corporate leadership has put power into the hands of individual teams to decide how much work must be done physically and how much can be done virtually. “They are empowering teams everywhere in the world to make the call on how to balance work/life and where to work from.”

“G” must stand for purposeful governance. Haribhakti said the core theme of this principle is accountability – a state that will be increasingly measured not by human reporting, but by technology. “All accounting will someday be blockchain. You can’t change it. It’s fully traceable. All auditing will be AI driven.” It will take a lot of digital effort – an Internet of Things capturing data that will allow for traceability, trackability, and identification. But ultimately, this process of digitalization will prevent “greenwashing.”

What Is Happening in ESG Now?

> “Earlier we used to think in terms of only fixed cost and variable cost. But today we have to think of lifetime cost”

There are many places in the world that have embraced ESG principles and are making strong progress, said Haribhakti. Norway, for example, is on a concrete path to Net Zero status. There are ships and railroads that are hydrogen based and fully green. The sale of EV cars are on pace to exceed the sales of ICE (Internal Combustion Engine) cars in the next three years. The pace of change is astounding but true, he said.

Even more impactful, ESG is changing the way businesses think about their fundamental processes. The whole notion of cost is being redefined, he said. “Earlier we used to think in terms of only two kinds of costs– fixed cost and variable cost. But today we have to think of lifetime cost. And that’s where every large project, infrastructure project in the world, is not assessed on the basis only of the capital cost and the variable cost. It is assessed on the basis of the effect of that cost on how things will transform over the life of the implementation.” That is a new way of thinking that embraces ESG as a critical force.

To more fully realize ESG, business leaders must energize and elevate the discussion around ESG topics. The resources and skills to implement ESG concepts exist, he said. The will to make it happen must be coaxed and cheered on. “The unfortunate, sad and not known fact is that there is enough affordable resource to do energy transitions completely and comprehensively, much faster than what we believe we can do today. Resources are available, they are abundant. It’s just that we need these debates to generate the action which will make it happen.”

Companies need to include communication as part of the process when they operationalize ESG efforts. Once you’ve done the work of going green, ramp up the way you talk about it. Emphasize communication around ESG – push for more communication, TEDx talks, make it part of ERP and procurement discussions. “You need a Netflix of outcomes to express what you have done and what is the result of it,” he said.

What Boards Must Do

> “Boards have a foundational role to play in creating the framework that will allow more to follow ESG guidelines”

Haribhakti said boards must commit to five key actions:

- **Specify a Net Zero Target.** What's more, work to ensure that everything your company does is matched by business partners and customers. "All your borrowers also must be included. Your whole ecosystem should get to net zero," he said.
- **Adopt Science-Based Targets.** These are the principles that will be the scaffolding of your ESG actions.
- **Hierarchical Drawdowns.** Said Haribhakti: "Today there is enough literature available to know what causes maximal drawdown. And you can look at it in descending order of importance. You choose based on your situation as to how you will prioritize your actions."
- **Establish Risk Guardrails.** Said Haribhakti. "Everybody is now thinking of how to shift the risk when assets are likely to get stranded. This is something that we are all thinking about. How do we deal with these stranded assets? Can you do circularity with it? Can you do alternative views with it? Can you put it to other valuable ways of extracting value? We'll have to think of everything. Is there a fund that somebody can set up to manage stranded assets? All of this will have to happen. But we'll need to determine guardrails for everything in the process.
- **Embrace Framework-based Reporting.** The financial press is full of stories about fraud, audit failures and director failures. It has created a substantial trust deficit. Directors must proactively tackle this trust deficit in the context of ESG. Boards must support the creation of global standards so that the way companies report ESG efforts does not bring discredit to the company or create distrust in the minds of the readers.

Ultimately, boards must embrace their role in ESG work, amplifying the call for more companies to be involved. This is not just a corporate mandate, but a human one. Boards have a foundational role to play in creating the framework that will allow more to follow ESG guidelines. "We have to save the way we live," said Haribhakti. "We have to continue to exist as the human race. And if you want to do that, then risk has to be mitigated. That is the realization that is coming."

Overview of Fintech

Banks Must Prepare for a Customer-Driven Future

As part of the Directors Development Program, Egon Zehnder hosted a discussion titled "Overview of Fintech," featuring Hemant Jhajhria, managing director and partner at Boston Consulting Group. Jhajhria gave his thoughts on the latest happenings in the world of fintech and what they mean for board directors.

Fintechs are disrupting traditional banking

Fintech, short for "financial technology," describes a wave of companies seeking to reinvent the traditional financial services industry through disruptive technology and software. And they are promising a "revolution," according to Jhajhria.

"When fintechs look at banks, they find all these opportunities where banks don't give the similar experience or they are missing out on some process, speed, simplicity, or convenience that fintechs build around," he said. This puts traditional banks at risk, especially as regulations around these new technologies loosen.

Jhajhria said that fintechs have garnered the most value in the areas of payments and lending, followed by investments. Globally, banks make the most money from lending, so that is where fintechs have focused their efforts. In the investment field, fintechs have stepped into areas such as wealth management, which is especially important for the younger, more tech-focused audience they are courting. This can pose a problem for traditional banks, especially public ones.

"Because if you're going after a millennial who doesn't have money today, he will have money tomorrow," said Jhajhria. "And it's a continuous relationship, and one thing that public sector banks probably most worry about is: *Our customers are growing old, how do we attract newer and younger customers?* Because customers will grow older and older, and your profile gets that much more tough to attract a newer set of customers."

Banks are falling behind on customer experience

A focus on customer experience is giving fintechs a leg-up in many regards. Jhajhria mentioned the bank-specific apps he uses, and how "none of them come even close to Google's Gpay, in the experience. "It is never down, it is so intuitive, I didn't have to learn a thing…But for banking apps, I have to learn how to do simple transactions"

Traditional banks have lost that customer experience advantage in an era of innovation and technology. Their apps can't compete with other companies' apps that are explicitly designed around software development—and those apps' poor adoption rate is evidence.

"Older customers may value the in-branch experience of traditional banks", Jhajhria allowed. But that experience matters less and less to younger customers. "I probably go to a branch once in five years, and my son would never even see the branch," he said. "So that move will happen, and there is a real risk that the younger customers are not getting excited with what banks have to say."

The balance of power in data is shifting toward fintechs

Traditional banks aren't just losing to fintechs on this "lucrative, fee-based front-end business," according to Jhajhria. They are also falling behind on what was once one of their primary strengths: customer data.

Historically, banks have had a rich, exhaustive well of customer data. "You can find out if this customer is going to default on his lending account 12 months from now—the data is that good," said Jhajhria. "But what have banks done with that information?"

Not enough, according to Jhajhria. Banks may have the deep sets of data, but fintech companies are poised to use the data they have more creatively. "The richest data is with the banks, but why is a bank's valuation is probably like 150th that of Google?" he asked. "Because there is no trust in the market that the banks will use the data very effectively."

Now, the data that banks were once protective of is available to more and more companies, as customers become more accustomed to sharing it.

A wake-up call for banking

There are countless stories of traditional industries being disrupted and made obsolete by technology. Fintech is poised to do the same to banking, if old lines of thought are not challenged.

> "It will be a customer driven future"

"The first thing banks will ask about is how this needs to get profitable in six months," said Jhajhria regarding banks' reluctance to adopt new technologies or methods. "But there is rarely a question asked about, OK, first design my customer experience, first make sure my customer is happy. And then profitability is also important."

Jhajhria called what awaits this industry a "customer-driven future."

"Why is this a customer-driven future?" he asked. "Because customers today, when they start their morning, let's say they book an Uber, and they go to a bank, they go to a party, whatever they do—they don't see a difference between financial services and non-financial services. They see that they need X number of things. Can they work seamlessly together?"

Jhajhria gave the example of Rocket Mortgage, which stepped into the previously uncharted waters of online mortgages years ago. "I used to manage for a global bank, and we used to laugh at Rocket Mortgage," he said. But the company built an intuitive, seamless app experience that revolutionized the mortgage industry and the analytics behind it. “No one has simplified mortgage like Rocket Mortgage has done.”

So how should banks respond? Jhajhria said once option is to collaborate with fintechs. “Fintechs really want to collaborate with banks,” he said. “They believe that they can help banks with sourcing, distribution, underwriting credit, even collection.”

Or banks could undergo their own digital transformation, inventing and building digital-first products rather than trying to force their traditional services and processes into a digital environment. “You’re not going to take your traditional products and throw them online,” Jhajhria said. “Because that doesn’t work. The experience needs to be redesigned and it needs to be quite seamless.” Such an approach will also require banks to confront and solve their own legacy tech challenges across their operations—challenges than Jhajhria are endemic to the industry.

As a wave of tech-centric disruption threatens to overtake another industry, Jhajhria cautioned the members of traditional banks in the audience to not disregard these new startups, and instead find their own path toward innovation and reinventing their businesses.

Fintech: a founder's perspective

Panel members provide their perspectives on what trends are driving India's fintech revolution

As part of the Directors Development Program, Rahul Rana, Egon Zehnder hosted a panel discussion on the subject "Fintech: a founder's perspective" with Dilip Asbe, Managing Director & CEO, National Payments Corporation of India (NPCI), Dheeraj Aneja, SVP and Head, Fintech and Payments Group of Flipkart and Harshvardhan Lunia, Co-Founder & CEO at Lendingkart.

India is among the fastest growing fintech markets in the world, with the highest fintech adoption rate of 87% globally, according to Business World. The three panel members from completely different backgrounds provided their perspectives on the wider implications of the Indian fintech revolution during the session.

The first perspective was provided by the National Payments Corporation of India (NPCI), a specialized division set up by the Reserve Bank of India (RBI) to operate retail payments and settlement systems in India. At ground level, NPCI works closely with fintechs, banks, and technology service providers to create platforms and democratize payments. According to Dilip Asbe, the company's Managing Director & CEO, in terms of scale, the bank-end technology infrastructure that NPCI has created—handling between half a billion and a billion transactions a day—is unparalleled. However, it still has far to go. "We believe that more than 10-times growth is possible in the payments system in India. Obviously, what we do today may not be sufficient and we might have to scale up some aspects," he said, adding that further innovation is also needed in order to enhance the customer experience. "We'll have to up the game on technology if we want to be equally aggressive with the fintechs in terms of a front-end customer experience"

> "Innovation will evolve the overall ecosystem and everybody will benefit from this"

Ultimately, it boils down to the question of why banks should partner with fintech companies. For Asbe, the partnership serves to "expand the overall pie", create a greater degree of outreach, and a greater degree of engagement among customers. Banks can therefore create new products, open new markets, generate better customer engagement and evolve the overall ecosystem, largely to the benefit of the customer. In other words, both parties profit from the partnership.

Tying in with e-commerce

Dheeraj Aneja, SVP and Head, Fintech and Payments Group of Flipkart spoke from an e-commerce perspective. As one of the largest e-commerce platforms, Flipkart has over 400 million customers. Aneja sees a fintech arm within that ecosystem as necessary. By partnering with banks, payment networks, and other fintechs it can deliver innovation both on the side of e-commerce and financial services.

A lot of products in the market tend to be fairly standardized and designed around a certain kind of a customer. However, when you're trying to insert financial services into commerce then you have to fundamentally rethink customer goals in terms of what they're trying to achieve, what their end goal is and whether there is something available on the market to service their needs, he discussed.

"When we provide financial products, they have to be available to everyone who is shopping on Flipkart. This means I need serviceability, I need to understand the customer better, and I need to figure out how to deliver credit at scale." A lot of those factors influence not just the product but to how you design systems, how you architect them, and how you deliver these real-time experiences.

For Flipkart, the big question right now is how to deliver financial services at scale. "Does that require us to move away from what there is in the market, do we partner where we find value in partnering, or do we just do it on our own where we think we have to?"

Trust behind lending

Harshvarshan Lunia was formerly a banker before setting up a full-fledged fintech platform for SME lending in India, namely Lendingkart, which recently won the "Best Fintech Company of the Year" at the World BFSI Congress Awards. The company uses technology and analytics tools, analyzing thousands of data points from various data sources to assess the creditworthiness of small companies quickly and accurately. It aims to transform small business lending by making it convenient for SMEs to access credit easily.

> "We create personalized experiences, understanding and delivering against their (SMEs) financial needs, which in turn helps them build their businesses and their lives"

His friends' and family's borrowing behaviors prompted Lunia to set up the company. "I thought maybe there are thousands of others like them in India. Maybe we could figure out ways and means of reaching them, providing them with financial literacy, guiding them about what they should borrow, how they should borrow, and service their financial needs."

The company endeavors to try and connect consumers with banks and provide them with as much information as helpful before helping banks to underwrite them and to give them a prudent loan. Interest rates start from around 12 percent to go up 24 percent. Everything is risk graded. "We have to ensure that we don't give them too much in terms of amount or leveraging so that they can pay us back and similarly give them a personalized experience and engagement which helps them to build their business and solve their financial needs."

Trust lies at the foundation of the business. If an individual borrowing a small amount of Rupees "comes and tells me that I don't want to pay you, there is no way

I can go and collect it, right? So, I just have to trust him that he will use my money prudently and pay me back prudently as well". Ultimately, Lunia is reassured by the fact that his borrowers are educated and therefore won't borrow recklessly. "This means that if it did not suit their economics, they would not borrow from us."

Going forward, fintech's expansion in India is likely to transform the way banking and financial services operate in the country, with firms like the above at the forefront of this change, responding to changing customer demands and an evolving ecosystem. Board directors can profoundly benefit from these points of views - banks partner with such Fintechs in serving financial needs of segments which hitherto beyond the reach of banks are now being served using technology.

Cybersecurity and the Role of the Board

Banks urged to assess cybercrime risks

As part of the Directors Development Program, Egon Zehnder invited Saket Modi, Co-Founder and CEO of Safe Security, to speak on the emerging risks in cybersecurity and what board members should be thinking about. Modi, recognized in Fortune Magazine's 40 Under 40 list, Entrepreneur Magazine's 35 Under 35, and Forbes Magazine's 30 Under 30, was joined by his Co-founder Rahul Tyagi at the event.

As the annual global cost of cybercrime threatens to spiral to $10 trillion by 2025, banks urgently need to learn to assess and manage cyber risks effectively, declared Saket. The two co-founders presented a live hacking demonstration to show just how vulnerable both individuals and organizations can be to this ever-growing threat. Nowadays, you can even pay for an underground "hacker as a service," where you simply give the email ID of the person whose password or data you want. Two or three days later, you will be sent a screenshot showing that the hacker has logged into the inbox and you make a bitcoin transfer payment of $200 to $300.

Taking one recent example where an ATM switch as well as debit cards were hacked at a highly digitized cooperative bank so that money could be withdrawn without it being displayed on the bank balance, they demonstrated how these attacks are staged and how difficult they may be to detect. In other cases, millions of dollars of cash are being siphoned out of mature banks, despite them spending billion-dollar budgets on cybersecurity.

> "The real concern, however, is about the damage to reputation and the loss of trust"

What may sound like something out of a movie plot is in fact a bitter reality. In other words, banks may be speeding ahead when it comes to digitization, but cybersecurity remains low.

Writing off the negative financial impact of $10 million or $20 million lost to hackers might be harsh. The real concern, however, is about the damage to reputation and the loss of trust, with regulators and notably with customers. This has a much more long-term effect, pointed out Modi. "After all, banks are all about trust as they ask customers to trust them with their money."

Eyeing up security

Most banks and financial services companies have started talking about security but they have yet to look at it in a structured way – and that is what is currently missing, he continued.

So, how do you look at risk management within banks? How can you technically assess cybersecurity risk? It all starts with defining roles and responsibilities. Here, the role of the Chief Financial Officer (CFO) is to illustrate the current financial position. Meanwhile the job of the Chief Information Security Officer (CISO) is to show the risk, not to own the risk. The Chief Risk Officer (CRO)'s job is to act as the cyber intent owner, with first line accountability for cyber risk management. The board, meanwhile, is responsible to hold management accountable. Meanwhile, business and IT falls completely under the CEO's responsibility. At the end of the day, ownership of the risk always lies with the business.

Furthermore, it's worth looking at cyber risk using some parallels from different industries. For instance, when you talk about credit risk, there are some well-established data science models which the banking and insurance industry use to calculate the credit risk they are taking on.

Cybersecurity is the No. 1 concern

> "According to the World Economic Forum, hacking is the number one concern for MDs and CEOs worldwide"

Many would expect rising inflation or a turbulent economy to be leaders' number one concern right now. The CEO of one $4 billion Indian company sees it differently – cyber security is his first and foremost concern. Recently, his company fell victim to a phishing attack, with a hacker stealing something known as the "golden ticket," basically the master key to the active directory, thereby gaining access to every single file from employee payrolls to their accounts.

This CEO is not alone. According to the World Economic Forum, hacking is the number one concern for MDs and CEOs worldwide, says Modi.

This is no surprise considering how sophisticated say phishing attacks have become. Even for security professionals it can be next to impossible to detect the legitimacy of an email and the domain through which it is sent. "The point we're making is that hacks are very real and it's pretty simple these days to go ahead and execute this and that's the reason why it's become the number one worry."

Being held to ransomware

In future, artificial intelligence will be employed to make hacking even more malicious. This can present itself as ransomware – a type of malware that prevents or limits users from accessing their system until a ransom is paid.

The next evolution is Doxware, a type of ransomware that threatens to release personal data, such as photos and a list of contacts to the public if the user doesn't pay the ransom.

Other advances include MITRE Kill Chain, which has been developed by the U.S. government as the kill chain of every hack that can possibly happen, starting from reconnaissance to persistence, defence evasion, lateral movement, data collection, and data exfiltration.

The way you calculate the likelihood of a breach is to see if the kill chain is doable or not, which techniques are failing and the ways to dynamically map it. There are enough tools available to work out the costs. Notably in a ransomware attack, less than 10 percent of the amount spent is the actual ransom: the rest is made up of forensic costs, breach notification costs, legal expenses, PR expenses and the loss of reputation.

Knowing the risks

The top 25 CISOs in the world now use a simple yet comprehensive model known as the Interactive Cost Model to examine cyber risk. This firstly looks at your overall expected dollar loss based on all the controls currently in your environment and all the hacks that can possibly take place.

When you know the dollar risk, there are three ways forward. Either mitigate the risk, transfer the risk, or accept the risk. The board then decides if the residual risk is acceptable or too high and whether to raise the security budget or insurance.

In other words, cyber risk may be increasing but at the same time the weapons to fight it are becoming more and more effective and more readily available.

Introduction to the Metaverse

Harsha Kikkeri speaks on the implications of developments within the metaverse for the financial sector

Revolutionary technologies ranging from motion capture to computer vision to blockchain promise to allow users to interact with a new 3D world, namely the metaverse. But how can we make money in the metaverse and how should banks tailor their future offerings correspondingly?

As part of the Directors Development Program, Egon Zehnder invited Harsha Kikkeri, CEO at HoloSuit to speak on the implications of developments within the metaverse for the financial sector.

What is the Metaverse ?

We've already undergone a digital revolution thanks to the ubiquitous use of mobile phones, said Harsha Kikkeri, CEO at HoloSuit. "They digitized your fingers and allowed you to interface between the real world and the digital world on a 2D screen, and then provided you with tactile feedback."

Now, metaverse technologies, such as the HoloSuit or motion body, allow your entire body to see things in 3D using virtual reality (VR) and augmented reality (AR).

The ability to virtualize the human body enables people to interact within a “phygital” environment, presentinggreat potential.

This means that soldiers, for example, can perform various actions, such as running and jumping in the real world and these actions can then be mirrored in a virtual environment. An instructor can then digitally assess a soldier’s body movements in order to optimize his training. Scenario builder features then permit the instructor to select from different customizable terrains where the solider can train according to the challenges posed by the corresponding surroundings. Other people from terrorists to civilians can be added for further training purposes. In this same vein, the weather can be altered, the time of day can be changed, and the soldier can be equipped with various weapons to give them a real feeling of what it would be like to fight under real world conditions and be trained accordingly.

Metaverse and its uses today

As well as creating value, the metaverse can also help alleviate poverty. Every mobile phone could potentially become a window through which children in every village in India could experience the world, for example by participating in lab work at universities for a very low cost.

Likewise, an agricultural metaverse, funded by the World Bank, has been created in India to allow students to learn farming skills or examine 15 use cases under major crop divisions.

Equally, robots can be trained to carry out dirty or dangerous operations. Or athletes be trained with an entire stadiumand fellow players recreated alongside them.

“Everything in the world that we are doing, every physical object which has been created, it has been created for our human hands, for our human body to interact with. So, if you build a humanoid robot in the metaverse, we can actually teach it to do all the actions that humans are doing,”said Kikkeri

Relevance to the world of Banking and Finance

Why are these types of metaverse building activities so important for the financial sector? Essentially because they are a digital asset that can then be monetized. By funding these assets, interest can be earned when metaverse applications are deployed.

Let's not forget that the metaverse offers enormous financial potential, representing a $10 trillion economy. But in order to make money there, we first have to create value. Innovative technologies, such as those allowing us to develop replicas or digital twins of the real environment are already driving value creation.

Kikkeri encourages banks to fund these efforts and provide capital to create phygital assets. "There is a race to the metaverse, and we need well capitalized companies to be funded by the banks so that we can win this race otherwise we'll miss the boat."

Disruptive technology to change the nation

One director in attendance sees developments such as digital twinning as vital for real world applications and hugely beneficial for humankind. Kikkeri added "If we don't use technology for helping people, then what is the use of technology? The whole point is this is a fundamental disruptive technology which can really change the nation."

For example, creating virtual training programs for factory workers even before a factory is built can reduce injury and help with insurance premiums. Similarly, for agriculture, imagine every farmer having access to the metaverse, where someone can inform them how to rid a crop of a disease by using a certain pesticide or what they need to do toboost their harvest.

Similarly, in the metaverse our security forces can see and sense the enemy in 3D and take actions directly. Moreover, this visual information is provided using AI, removing any language barriers.

All of this is already happening in the real world but the metaverse allows you to do it more accurately, said Kikkeri.

Virtual world becoming a reality

The metaverse we see today may not feel real. However,in a few years it will get very real.

So, how do we reach that point? Basically, various building blocks need to be put in place. These include:

- Augmented reality (AR). Consumer-centric companies, including banks in India, already offer AR experiences.
- Virtual reality, which transcends space and distance, is another building block. These existingstepping stones, such as AR, VR, mobile commerce and digital collectibles, will help bridge the gap towards creating a full metaverse for banking with all of its commercial applications.
- One final, extremely important component needs to be added—building an identity. An existing digital identity still needs to be validated and this might take some time for the banking industry to fully adopt.

Creating collaborative spaces is the next important step. The metaverse allows you to travel from one world to the next. All these worlds are interconnected. Right now, we can only experience an isolated metaverse but the connected metaverse is the true vision of all ofits creators.

In the meantime, banks need to learn to understand how to use technology such as VR and AR. Messaging is important as it will ensure that customers stay connected inside the metaverse. Board meetings and training are already taking place there.

Essentially, while the metaverse is a few years away in terms of exploring its full commercial potential, essential building blocks such as AR, VR, and digital avatars are already live. Companies should take advantage of these in order to engage with their customers and train their employees.

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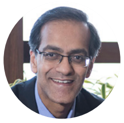

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About Egon Zehnder

Egon Zehnder is the world's preeminent leadership advisory firm, inspiring leaders to navigate complex questions with human answers. We help organizations get to the heart of their leadership challenges and offer honest feedback and insights to help leaders realize their true being and purpose.

We are built on a foundation that supports partnership in the truest sense of the word and aligns our interests with the interests of our clients. Our 550 consultants across 62 offices and 35 countries are former industry and functional leaders who collaborate seamlessly across geographies, industries and functions to deliver the full power of the Firm to every client, every time.

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We believe that together we can transform people, organizations and the world through leadership.

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