

Ensuring Board Continuity and Balance of Capabilities

Table of Contents

01 Definition of Board

02 Board Continuity

- Regulatory Provisions
- Succession Planning in India
- Classification of Companies
- Succession Planning in Family Owned Companies
- Causes of Unsuccessful Succession Planning
- International Scenario
- Lack of Succession Planning
- Type of Candidates Promoted to Board/SM

03 Board Capability

- Key Components and Regulatory Provisions Succession Planning in India
- Survey on Board Performance
- Essential Skills for a Capable Board
- Board Diversity
- Woman Director
- Corporate Governance Report
- SEBI (LODR)(Third Amendment) Regulations, 2021
- International Scenario



Board of Directors


The term 'board' means a group of persons having managerial, supervisory, investigatory, or advisory powers.

Board of Directors as per Black's law dictionary is the governing body of a private corporation.

As per Section 2(10) of the Companies Act, 2013 (Act), "Board of Directors" or "Board", in relation to a company, means the collective body of the directors of the company.



Board Continuity



“If succession planning at the board level is done with truly valuable inputs to the board, it will ultimately be very good for the board and for the company.”

—**Adi Godrej, Chairman Godrej Industries**

At least twenty listed companies in India lost key top level functionaries and board executives in India in the very first wave of covid-19 which has brought the spotlight on the need of well defined succession plan.



Regulatory Framework on Succession Planning

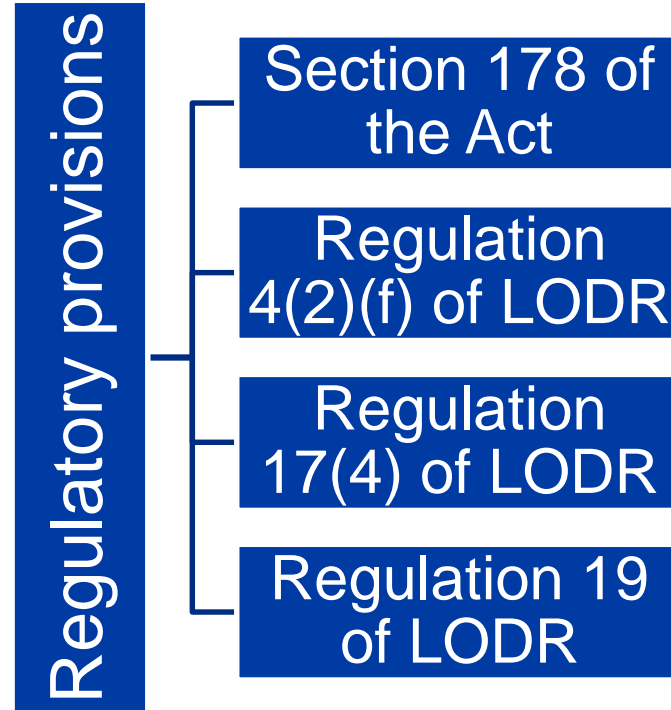


Chart 1: Activities important for board

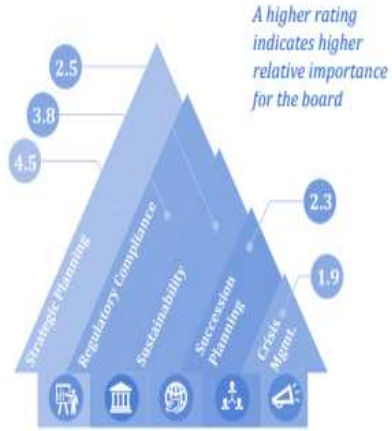


Chart 2: Accessibility of CEO succession plan

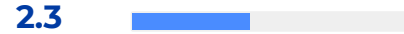


Succession planning in India

Data from a research 'CEO Succession Planning in India' by International Finance Corporation (World Bank Group)(2017)

Key findings

Importance of succession planning for Board



Companies discussing succession planning at least once in a year



Companies with succession plan available on website or annual report

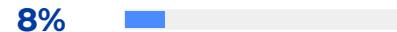
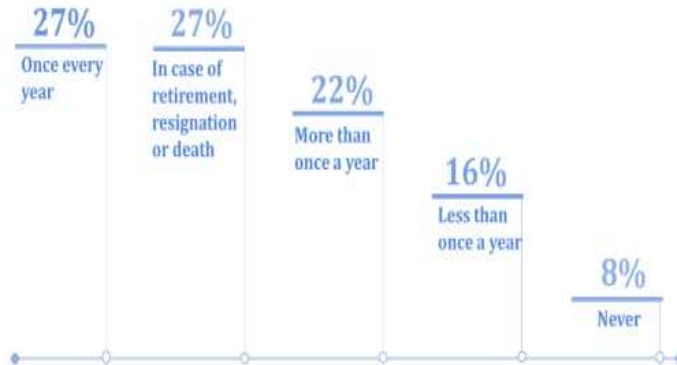


Chart 3: Frequency of board CEO succession planning discussions



Classification of Companies for Succession Planning

Professionally
Managed
Companies

ITC, L&T, HUL etc.

Family Owned
Companies

Reliance Industries,
Tata Group,
Raymond etc.

Public Sector
Companies

ONGC, IOCL, NTPC
etc.

Succession Planning in Family Owned Companies

Family owned companies have historically been most vulnerable to suffer in case of lack of succession planning. Corporate India has witnessed some of the biggest battles for claim on the top position in such companies operating among various sectors from garments to conglomerates.

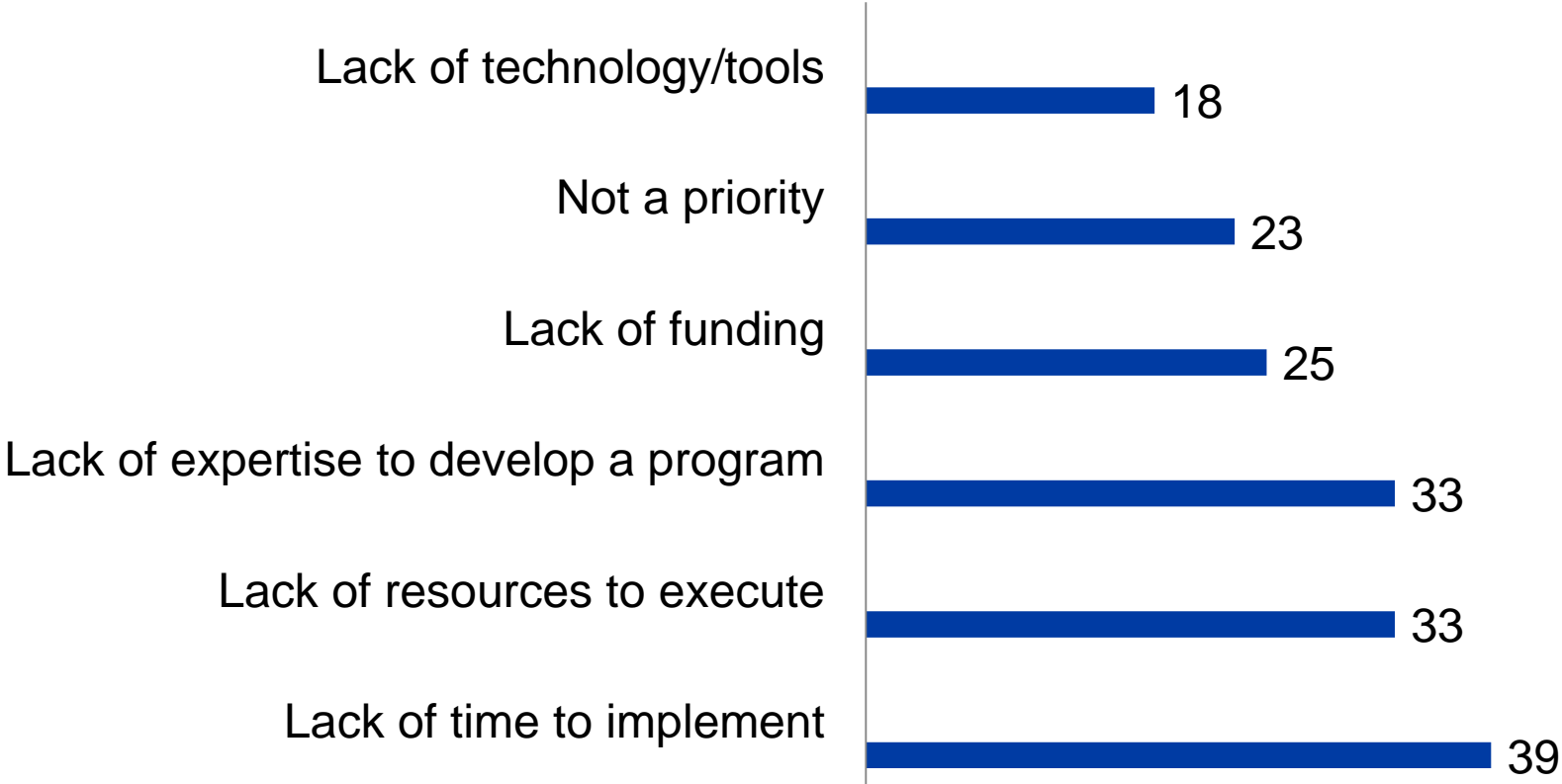
Situation in USA

58% have succession planning

34% have a robust, documented and communicated succession plan

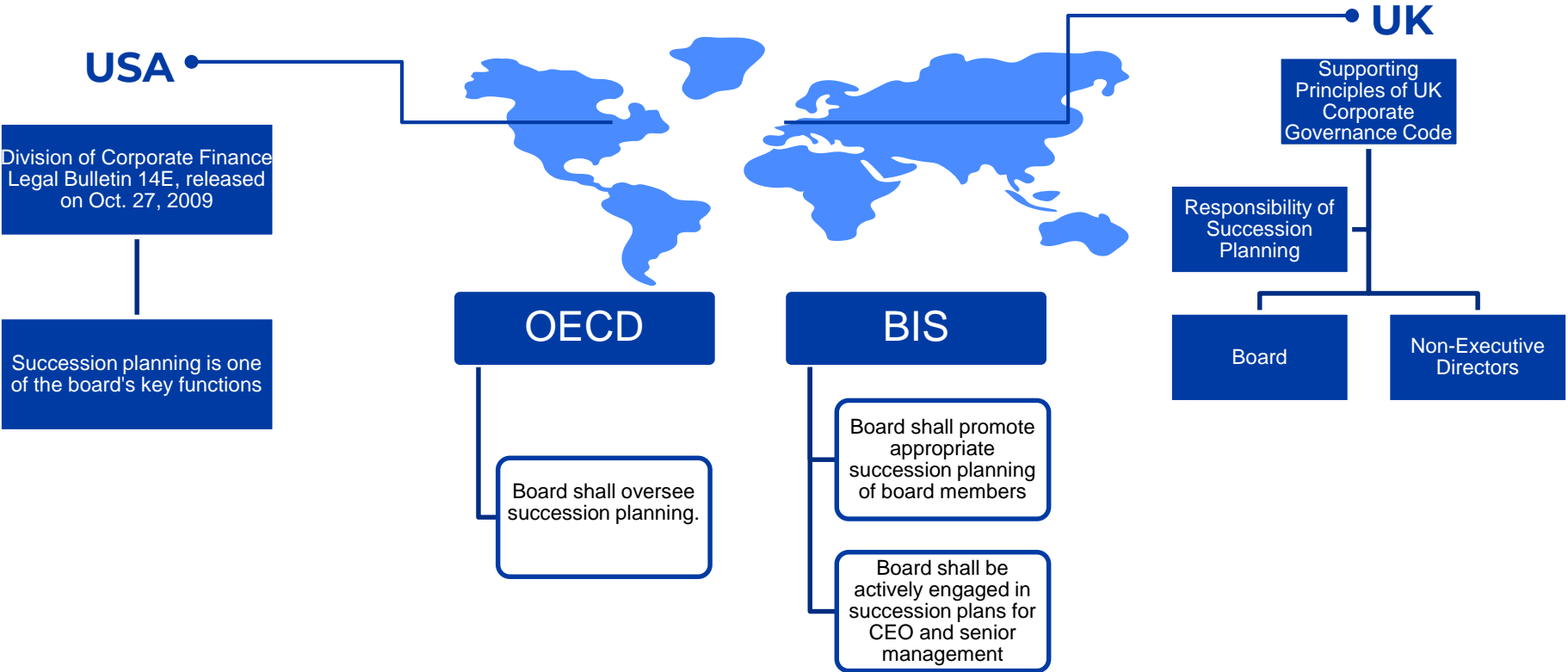
24% have informal succession plan

Causes of Unsuccessful Succession Planning

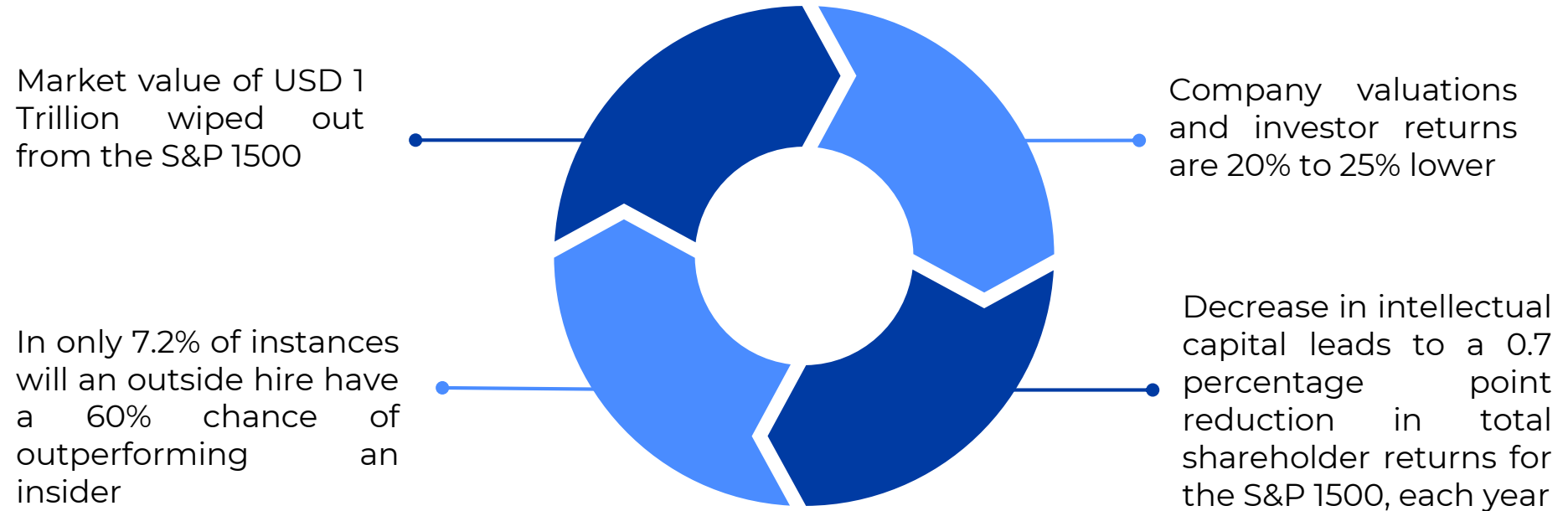


Source: Xbinsight (2016)

International Scenario

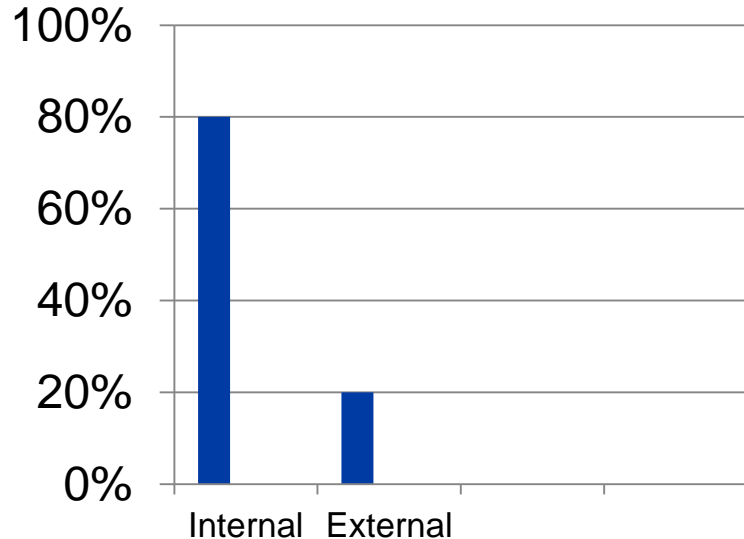


Lack of Succession Planning



Source: High Cost of Poor Succession Planning- a research by Harvard Business Review (2021)

Type of candidates promoted to Board/SM



Spenser Stuart- Succession Planning- The Indian Perspective (2010)

Appointing an external candidate as CEO is 75% more expensive for companies

Board Capability



Key Components and Regulatory Provisions



Diversity

- Section 149
- Regulation 17



Skills

- Regulation 19 read with Part D of Schedule II
- Regulation 34 read with Schedule V
- Regulation 36



Evaluation

- Section 178 read with Regulation 19
- Section 149 read with Schedule IV

Survey on Board Performance



40%

Executives rate performance of their board as poor or just fair



90%

Executives think that their directors don't understand company's strategy



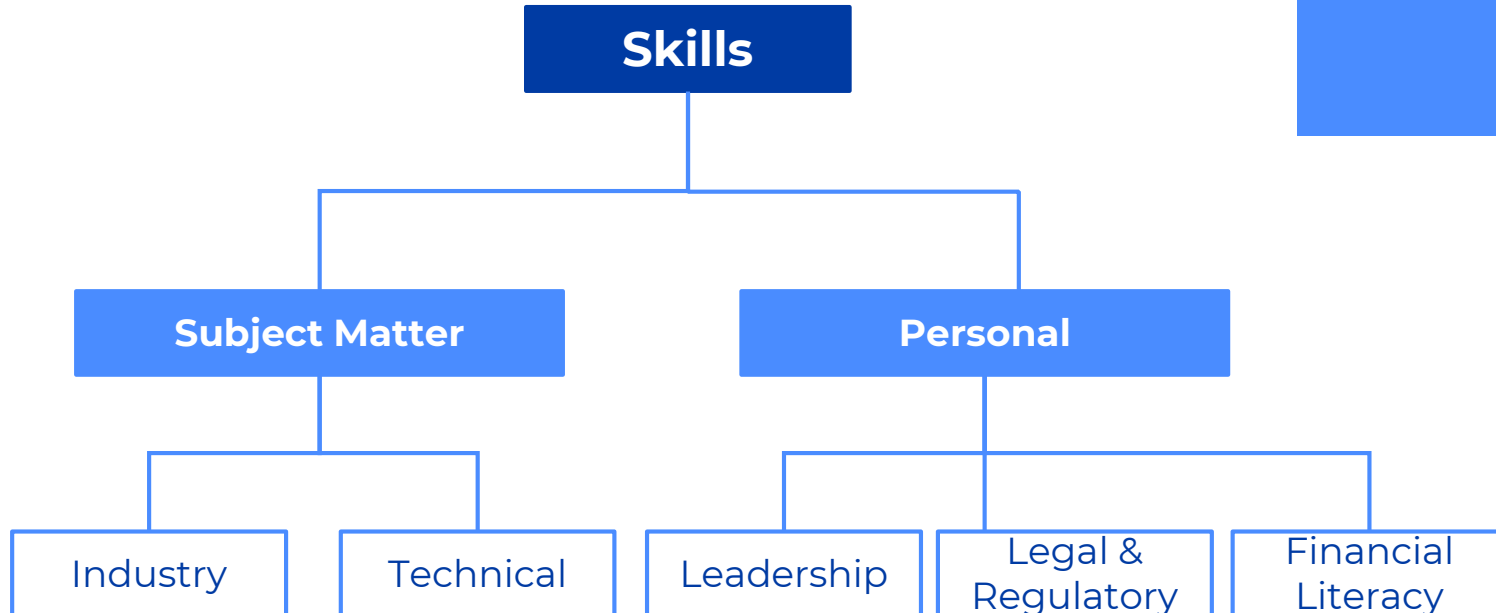
49%

Directors think that at least one of their fellow director on the Board shall be replaced

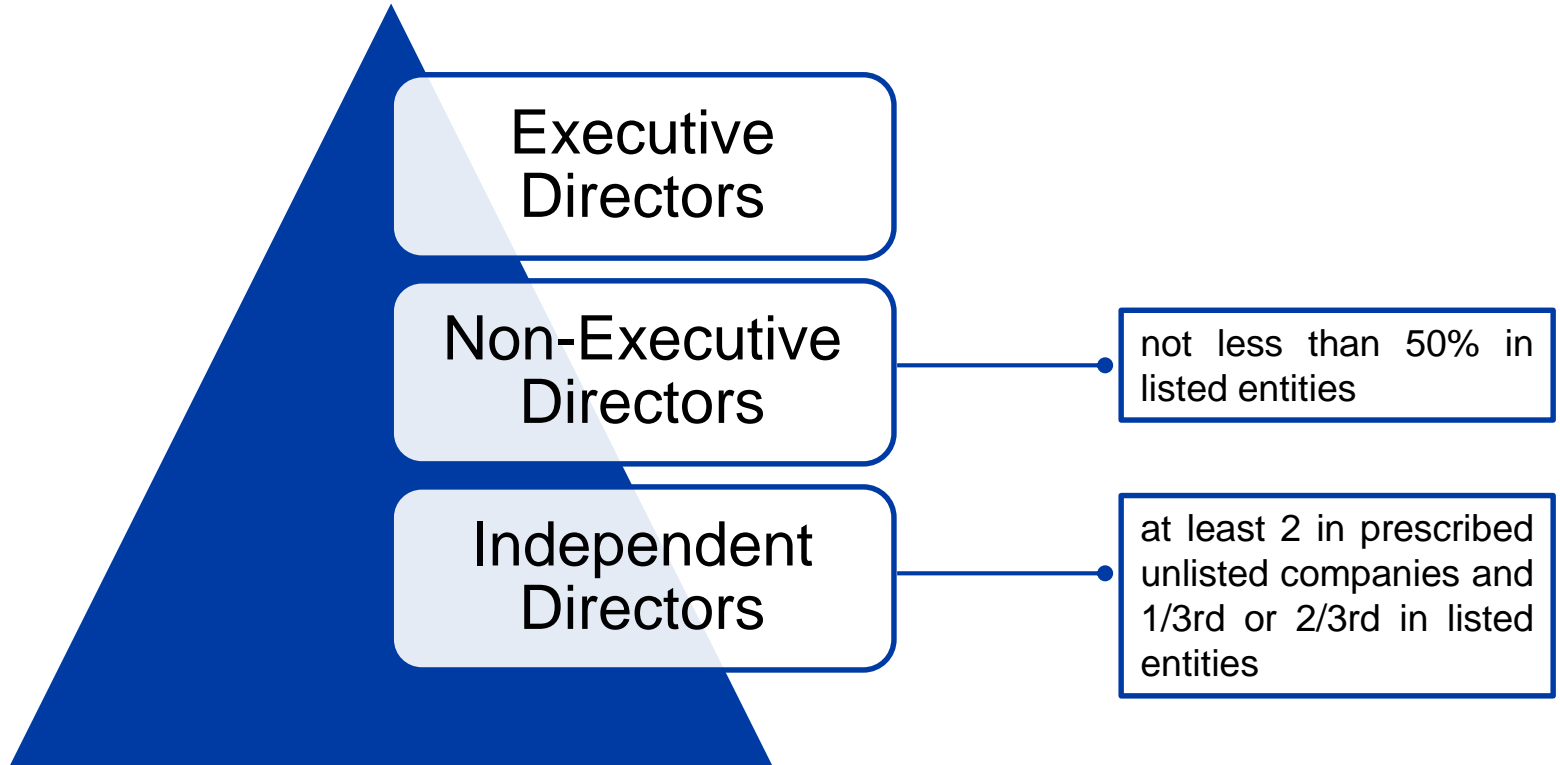
Source: PwC (2020)

Essential Skills for a Capable Board

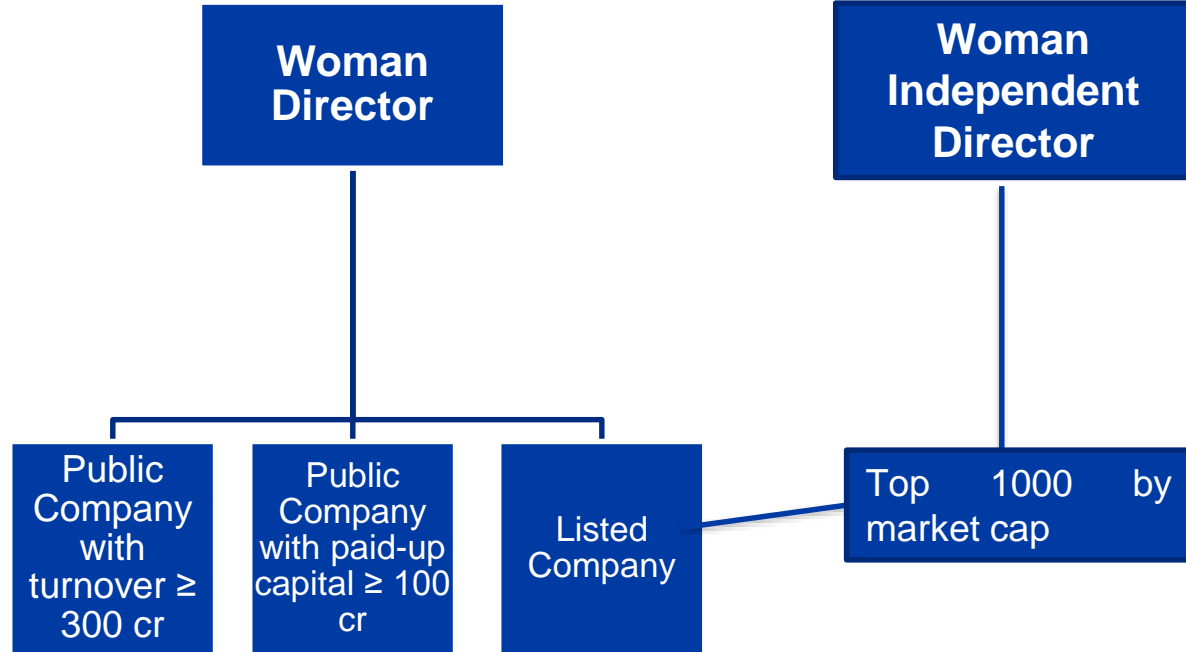
Various studies have been conducted over the years that detail the qualities essential for the directors on the board. While those may slightly differ from study to study but there are certain common skills that are required.



Board Diversity




Woman Director



Corporate Governance Report

The CG Report shall contains a chart or a matrix specifying the Core skills/expertise/competencies identified by the board as required in the context of its business(es) and sector(s) for it to function effectively and those actually available with the board and the names of directors who have such skills / expertise / competence.

	Director 1	Director 2	Director 3	Director 4	Director 5
Skills		✓	✓		
Expertise	✓			✓	
Competencies			✓		✓



“In the few boards where I have worked, I always found that only those nominations committees that are pretty serious about getting a broader database can really produce a good board. In the end, it is all about getting the best fit.”

—N Vahgul, former Chairman ICICI Bank

SEBI (LODR)(Third Amendment) Regulations, 2021

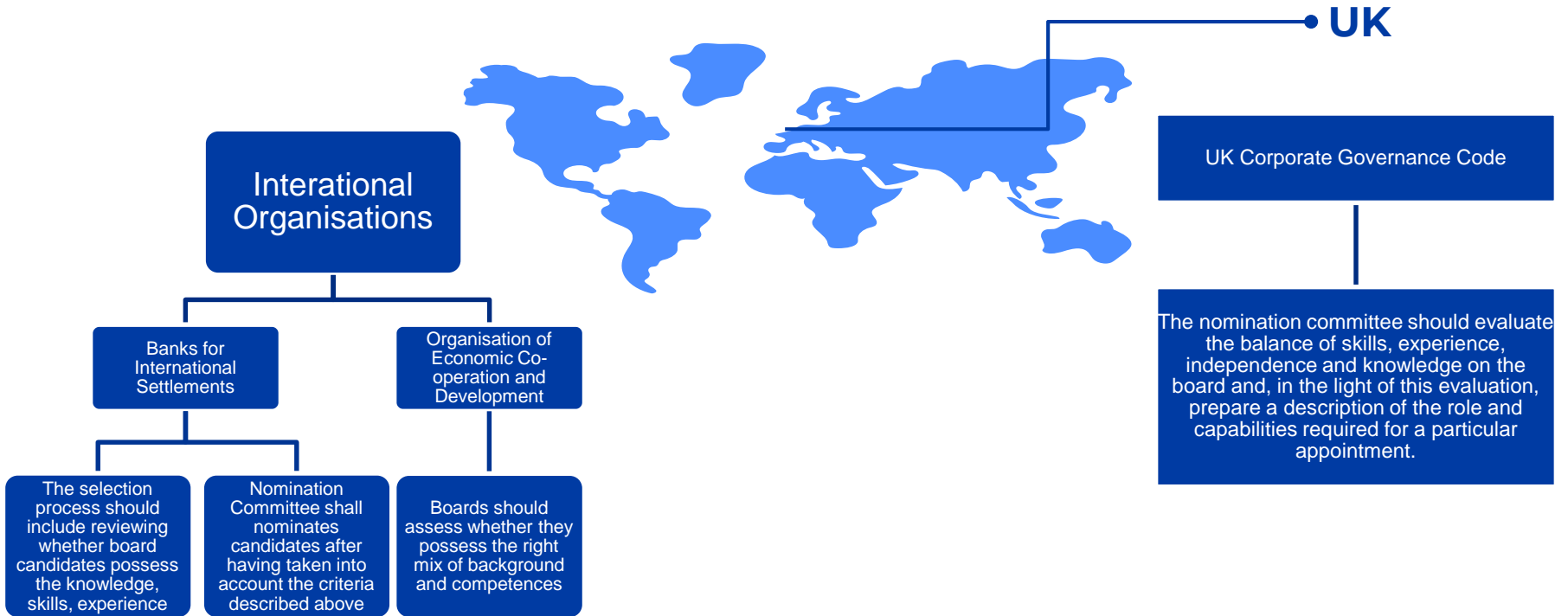


Appointment of Independent Director

NRC shall evaluate the balance of skills, knowledge and experience on the Board and on the basis of such evaluation, prepare a description of the role and capabilities required and shall ensure that the recommended person possess the aforesaid

In case of appointment of independent directors, the skills and capabilities required for the role and the manner in which the proposed person meets such requirements shall be disclosed to the shareholders at the time of appointment

International Scenario



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