



# **Ensuring Board Continuity and Balance of Capabilities**

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# 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

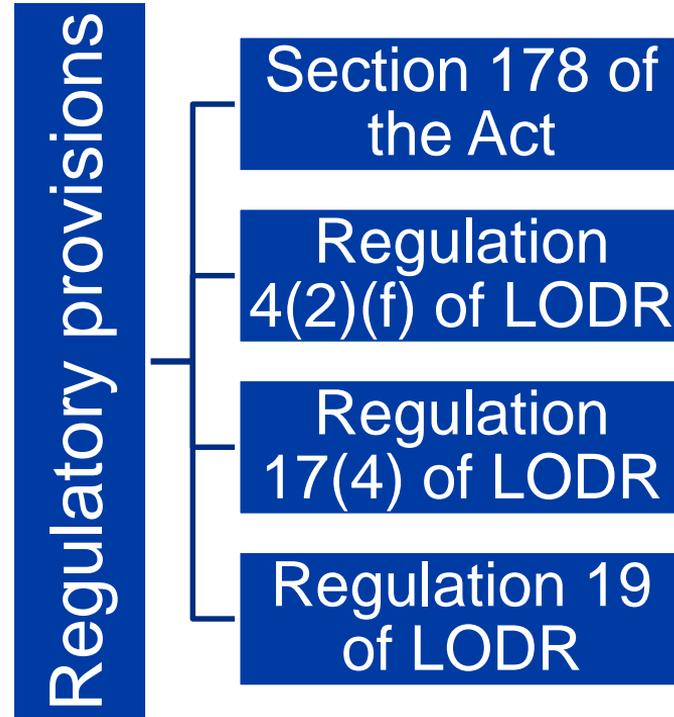


Chart 1: Activities important for board

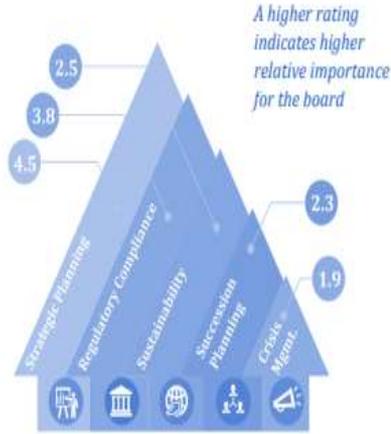
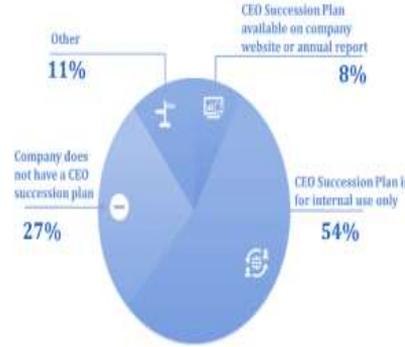


Chart 2: Accessibility of CEO succession plan



# 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

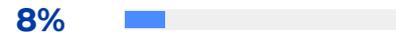
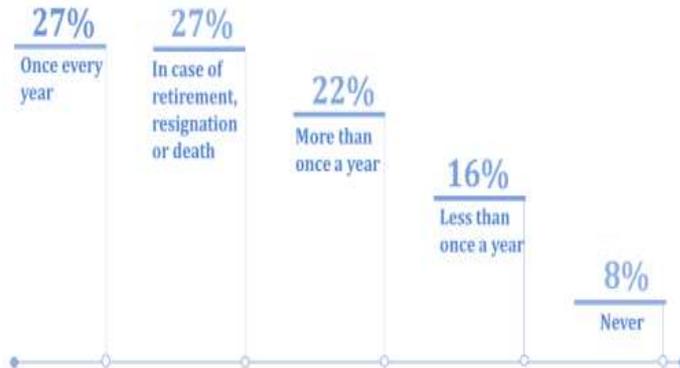


Chart 3: Frequency of board CEO succession planning discussions



# 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.

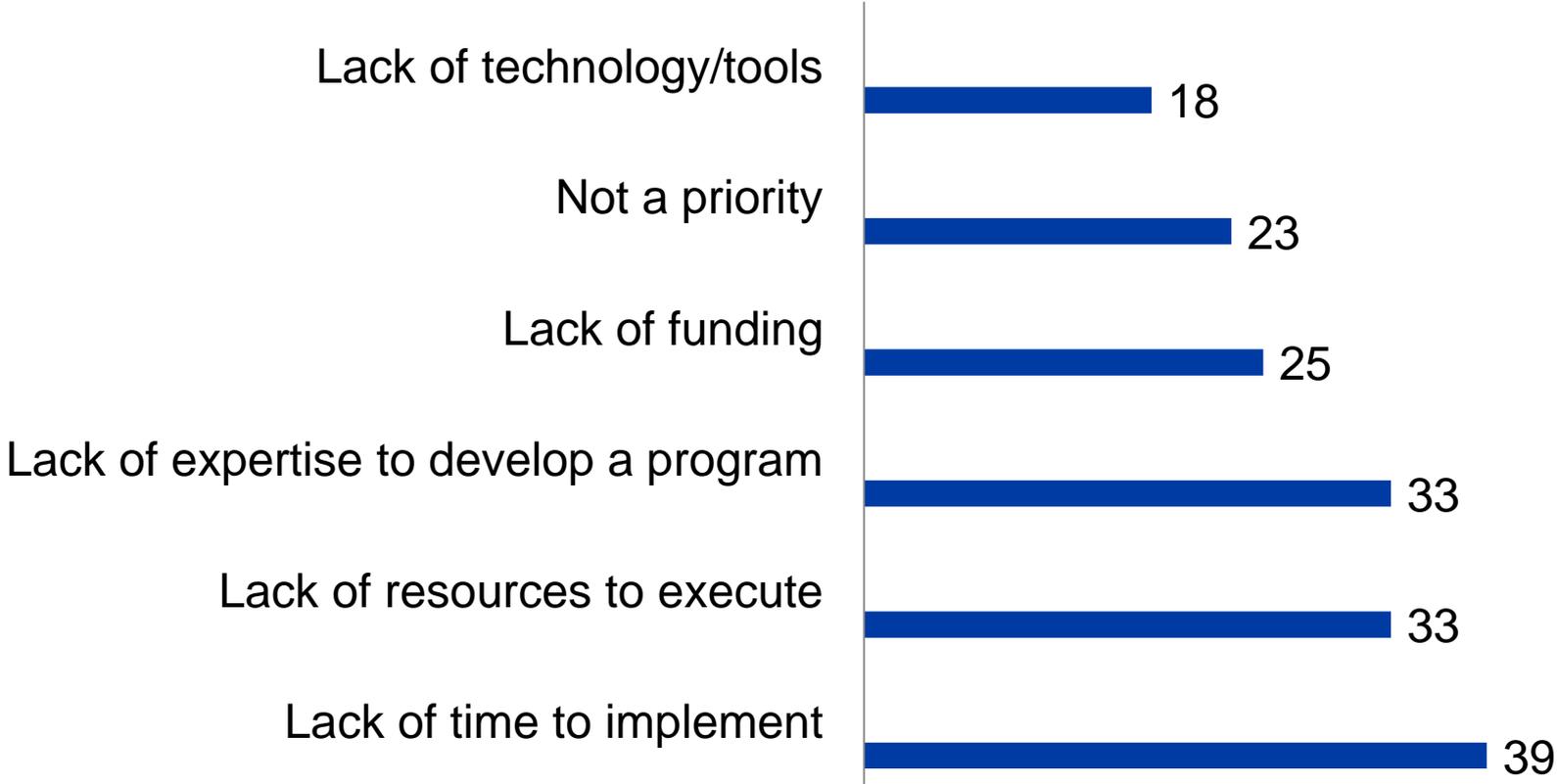
## Situation in USA

58% have succession planning

34% have a robust, documented and communicated succession plan

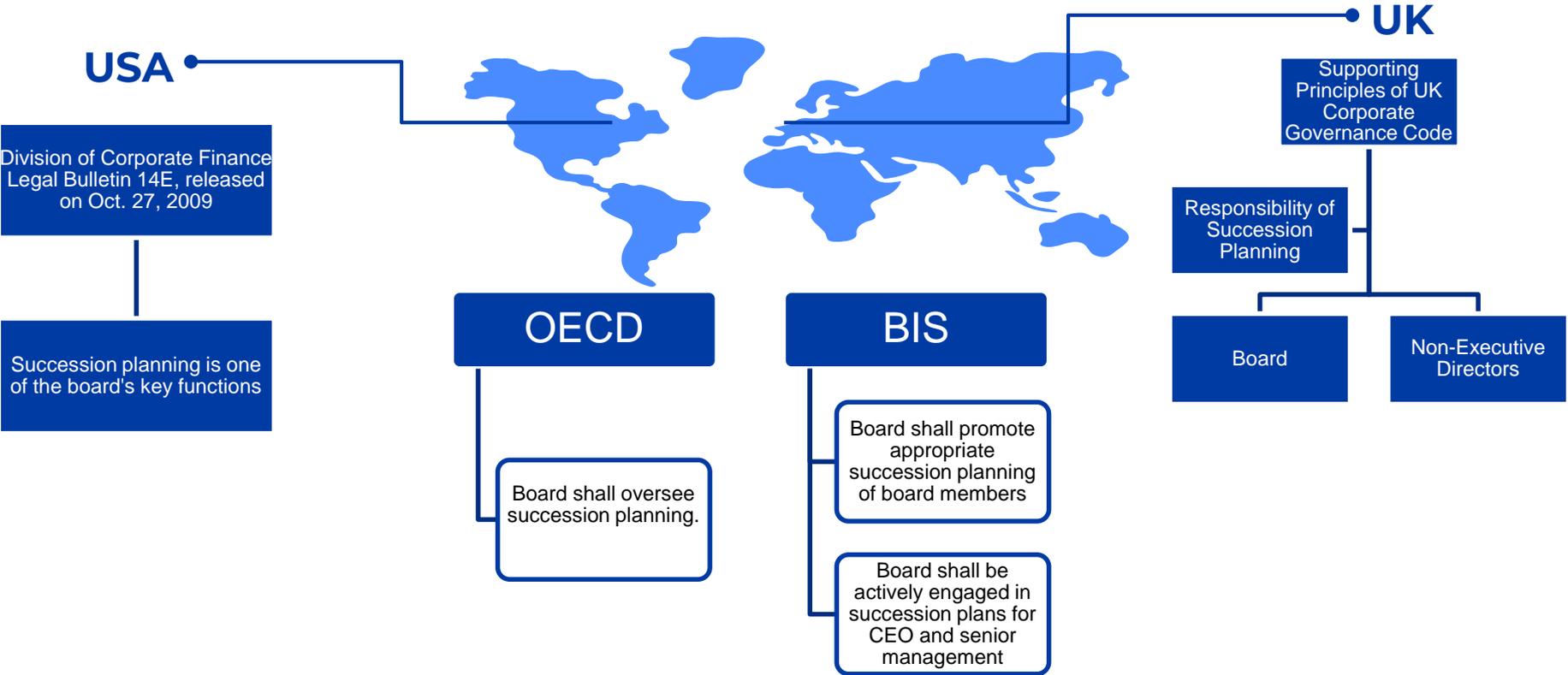
24% have informal succession plan

# Causes of Unsuccessful Succession Planning

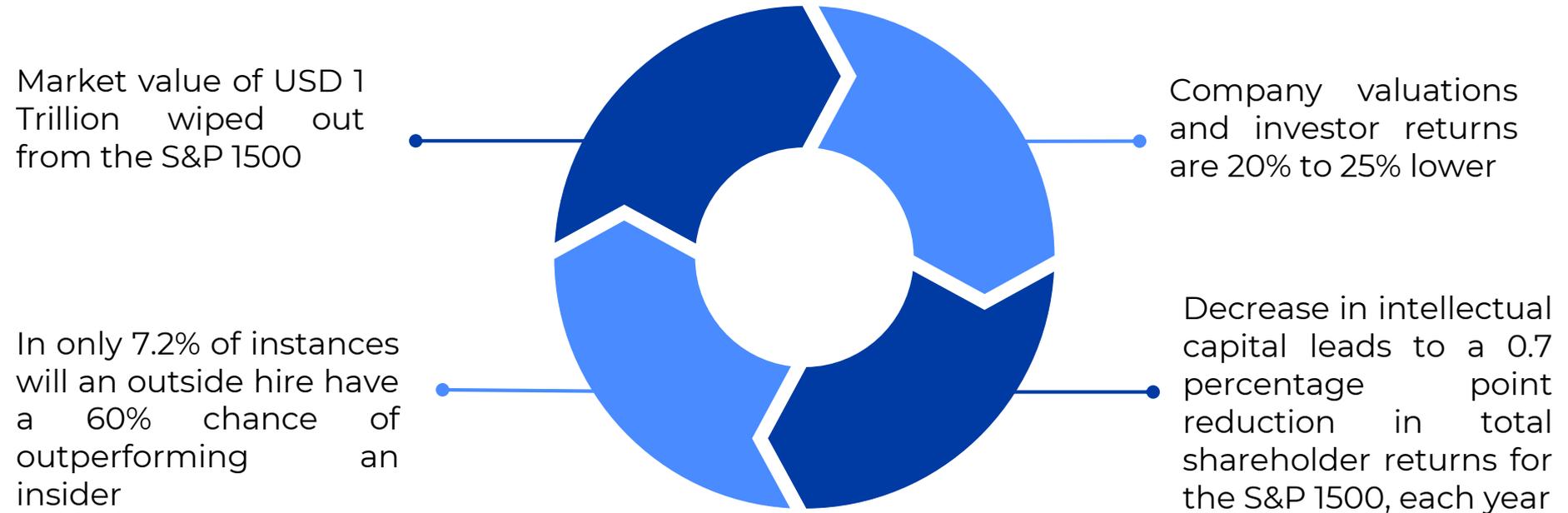


Source: Xbinsight (2016)

# International Scenario

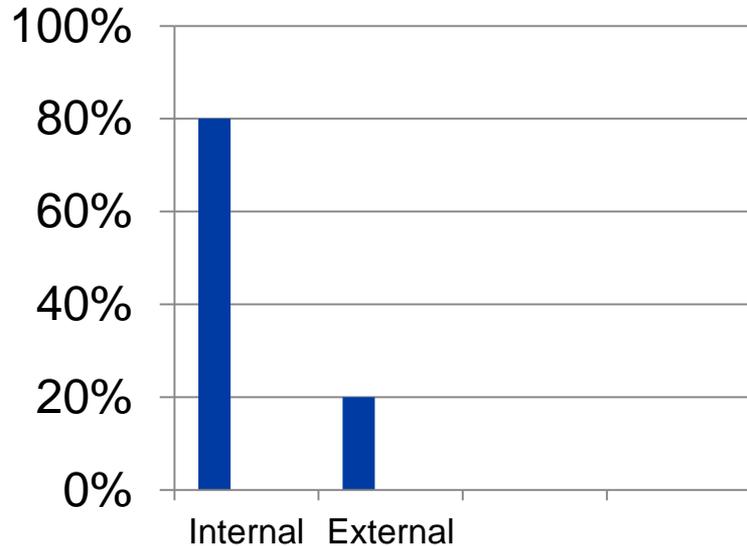


# Lack of Succession Planning



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



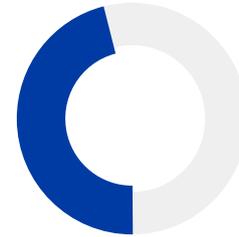
**40%**

Executives rate performance of their board as poor or just fair



**90%**

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



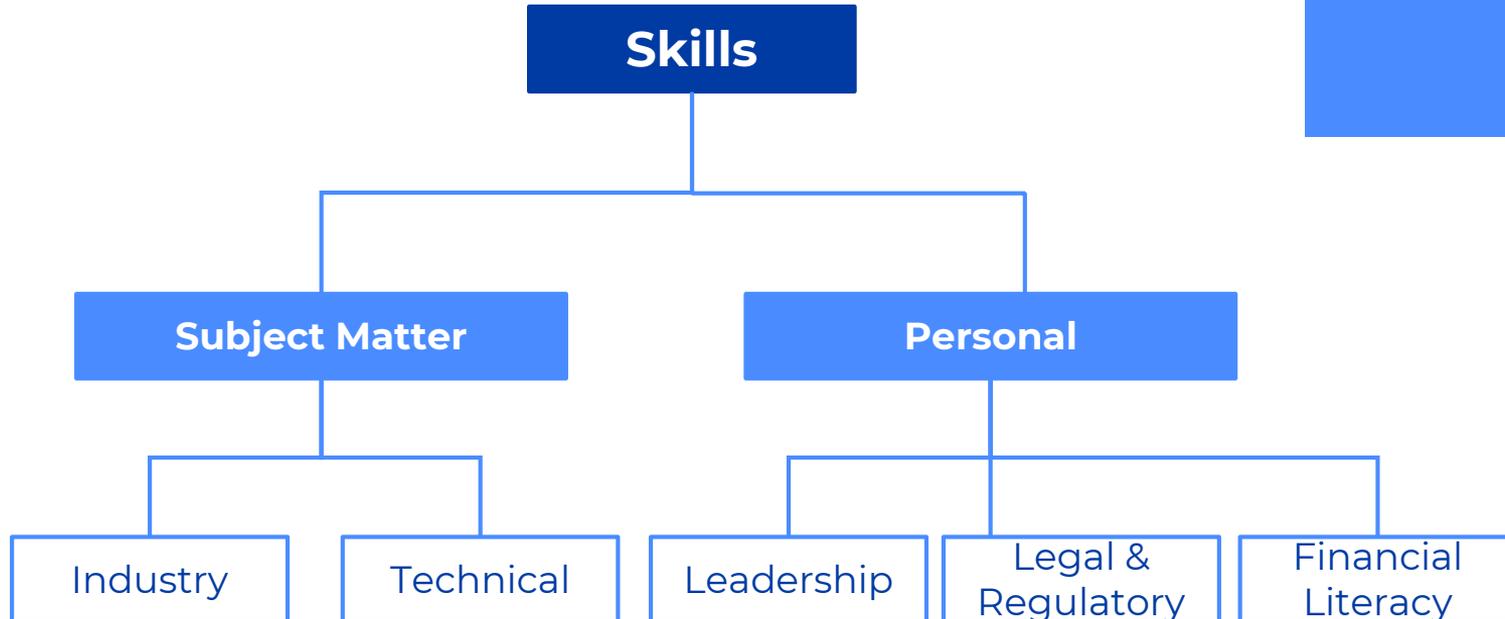
**49%**

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

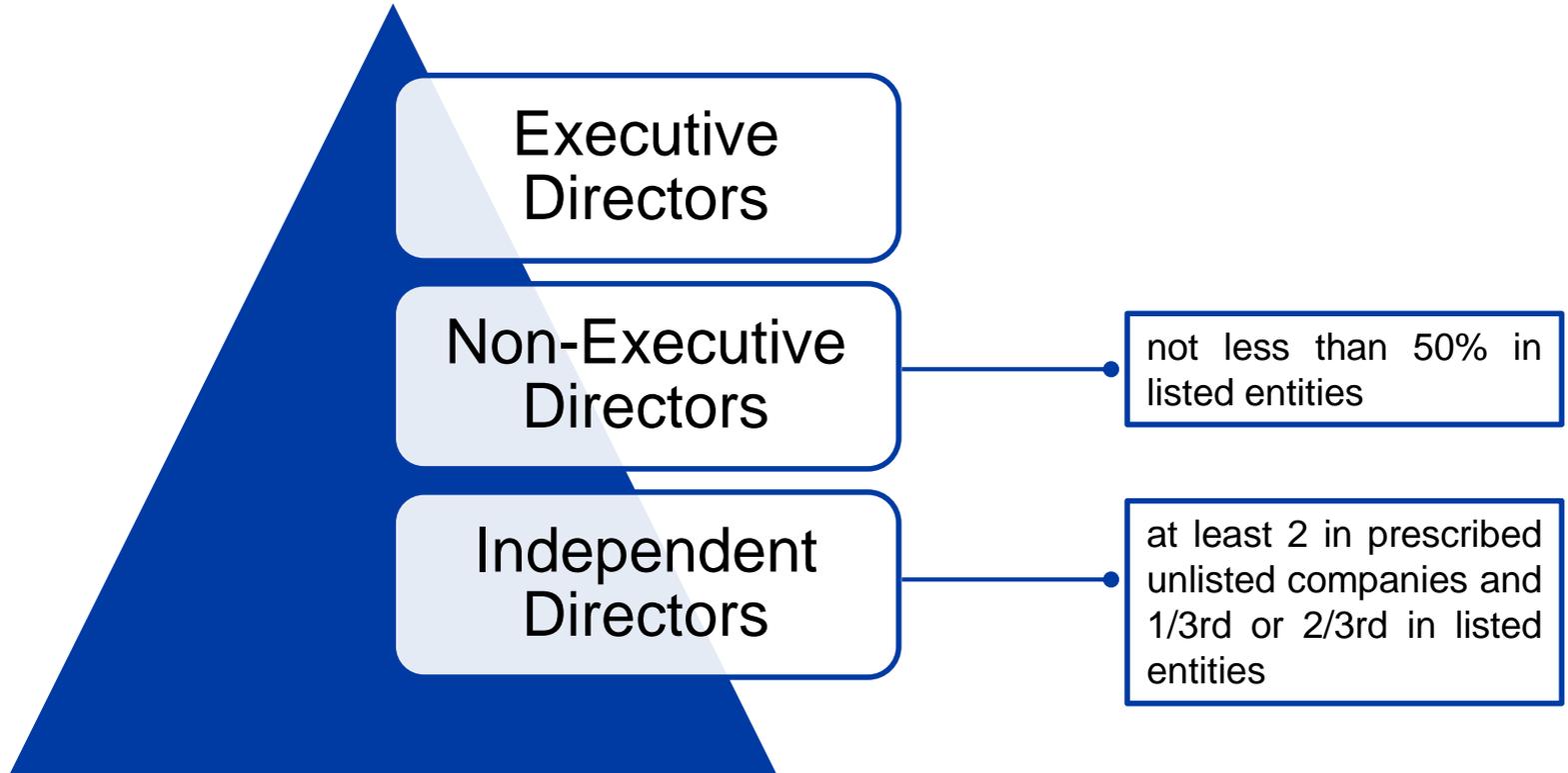
Source: PwC (2020)

# Essential Skills for a Capable Board

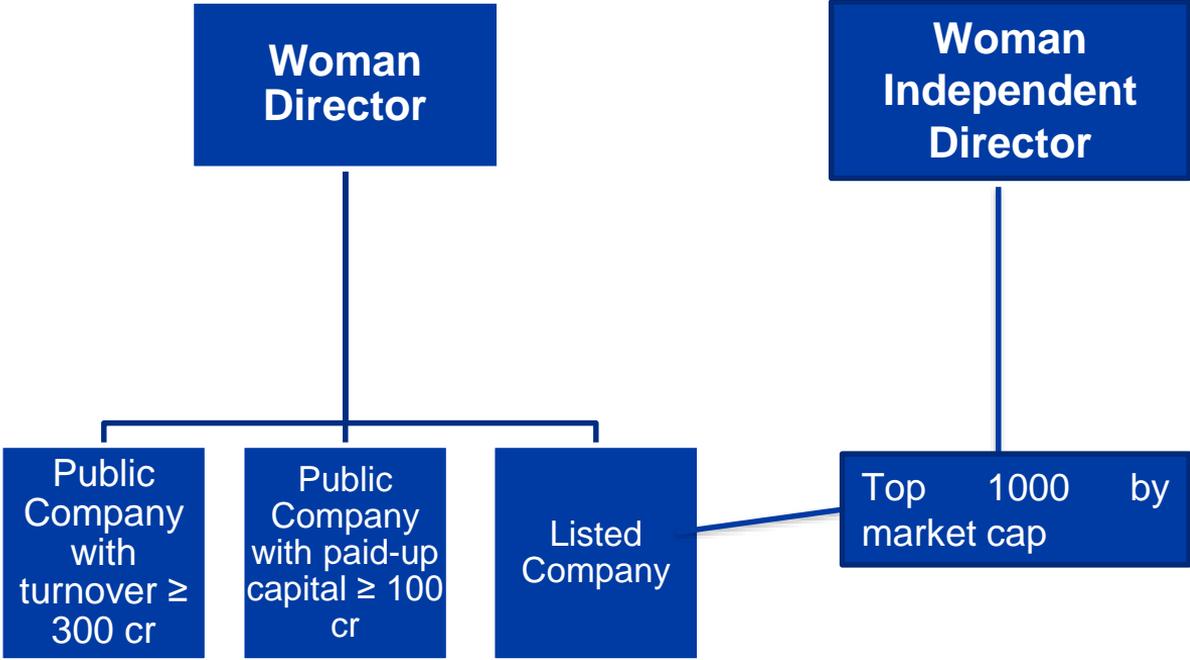
Various studies have been conducted over the years that detail the qualities essential for the directors on the board. While those may slightly differ from study to study but there are certain common skills that are required.



# 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

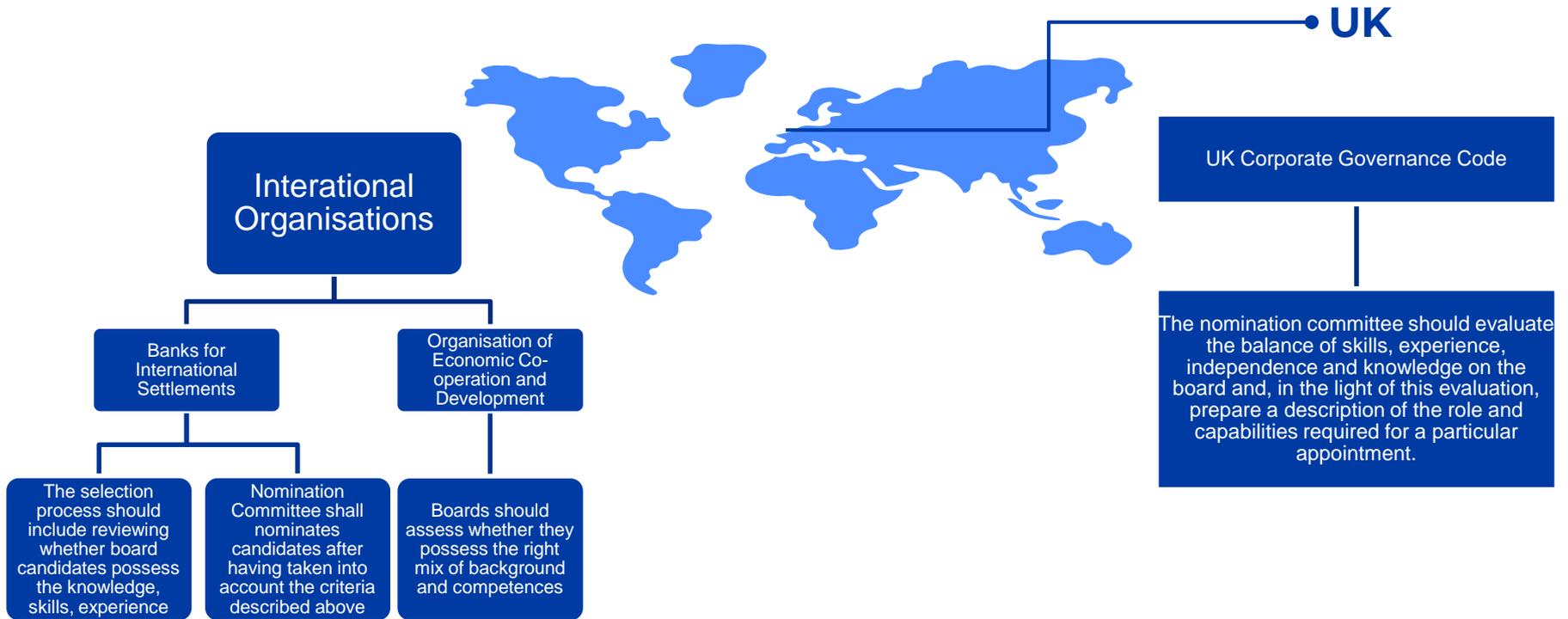


## Appointment of Independent Director

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



# References and Sources

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