Building
Tomorrow's Boards

Business has changed as never before. ICT (Information and Communication Technologies) and globalisation have changed the way we work. The greatest change is in public expectations of the business. Stakeholders are questioning the very purpose of the corporation. The obsession with bottom line profits and shareholder value looks tired and no longer provides the stimuli for leadership, motivation, innovation or brand equity. Building brands and not profits has become the focal point of the corporate agenda.

Understanding the way knowledge economy works is the key to our success. Its immense potential to transform society is tantalizing. Diversity and dissent which in the old economy were perceived as value destroyers, are today regarded value enhancers. Our greatest challenge lies in harnessing diversity, dissent, difference, disclosure & dialogue to improve the quality of solutions and enhance corporate value. The huge potential of ICT to transform the business and society has not been realized. For instance giving free high-speed broadband connectivity in the rural areas has tremendously transforming potential & can considerably reduce pressure on infrastructure at a fraction of the cost. Telecommuting can further bring down the pressure on roads, as employees do not have to travel to office. We don't need huge investments in infrastructure. We need skills for entrepreneurship, collaborations and innovation. The success story of LINUX, DELL, and WIKEPEDIA who have beaten the established giants Microsoft, IBM & Encyclopedia Britannica respectively by establishing collaborative networks with suppliers, users and customers is a case in point.

Businesses today are not simply economic entities. They are expected to be engines of economic and social transformation. Social good has become a competitive differentiator. There is money to be made in accessing poor markets and alleviating poverty. Poor are the greatest source of innovation. Bottom of the pyramid markets offer the greatest business opportunity of our times. All this calls for a change in the attitudes of the board and underscore the need for training of directors.

One of the greatest hindrances in developing boards is the corporate allergy and apathy to the word training when applied to directors. Training is important for staff but not directors. A belief has gained currency in corporate boards that once you step into the boardroom you no longer need any training. This is a strange phenomenon. Would you like to go to a dentist who has had no training or an accountant who is not certified? Directors can do a lot of damage to the shareholders. How can we have directors who are not certified?

The question is how are the directors going to cope with the wrenching change as a consequence of value shifts caused by the technological revolution and globalisation? We don't all come installed with the software to change. These changes have shaken the very fundamentals of business and the basic precepts even of corporate governance. Compliance to regulation is no longer the issue nor is the old style competitiveness because the criteria for competition itself have changed.

In an interview to Wall Street Journal, Eliot Spitzer, New York's crusader against corporate fraudsters said: "The honour code among CEOs, did not work. Board oversight did not work. Self-regulation is a failure."

You cannot change corporate behaviour simply by issuing edicts. The regulation simply forces us to build firewalls to prevent detection. It encourages focus on building manuals on HNGC (How Not to Get Caught), not really how to improve the quality of corporate governance. You need training to create an urge to change and to make a difference.

Companies can be coached to show how transparency can become a competitive differentiator. New technology can help you internalize change. Humans have great potential to improve once they get down to it Frederick Nietsche said, “he who has a why to live for will manage anyhow”. We need to create a ‘why’. Realisation that a problem exists itself provides 90% of the solution. Our greatest challenge, therefore, is to make boards realise that lack of director training is the problem.

In his report on non-executive directors Derek Higgs defined the following four attributes for the directors: integrity and high ethical standards; sound judgment; the ability and willingness to challenge and probe; and strong interpersonal skills. This has now become passe. Directors of 21st century are required to take far more complex decisions. They need to learn to capitalize diversity, dissent, difference and use dialogue instead of monologue to create collaborative networks and improve the quality of stakeholder engagement.

We have to change our models of dialogue, debate & even democracy. The Socratic form of parliamentary democracy is unsuitable for the knowledge society. Socratic model adopts an adversarial position aiming to demolish the opponent’s argument rather than exploring to understand each other’s beliefs and concepts. We have to move away from monologue and understand each other by creating a rapport, entering the other person’s world. Only then we can harness the diversity, dissent and difference and turn it into a corporate asset.

Standards of corporate governance have changed vastly due to the migration of public value. The issue of statutory compliance is no longer as important as ethics and social responsibility of the business. Shareholder value as a concept has lost the plot because of the interdependence of the world brought about by globalisation and connectivity. It is no longer a dominant business driver and is getting increasingly discredited.

We are witnessing the death of shareholder value as a competitive differentiator. Various booms and busts have shown that shares have no intrinsic value. They move like shuttle cocks swept by market winds. Many CEOs are swept away by the alarming share price changes as a consequence of some small piece of news about their own company or a competitor. Corporate governance failures today pose a much bigger threat in destroying corporate value than ever before. Billions are wiped out from the stock within days.

Shareholder value on its own is regarded as an immoral concept because it demeans the purpose of business, as a selfish pursuit to earn quick profit for its owners with no obligation to other stakeholders whose contribution is greater than the owners. It is also a demotivator. The fierce competitiveness of today’s business requires not only hands but also hearts and minds to beat the competition. Who will stick his/her neck out or put his/her heart to be passionate in making money for others? It negates the effort to build a loyal customer base. Corporations are nurtured to defy laws, bend the rules, explore the vulnerable and build firewalls in pursuit of HNGC.

Boards of tomorrow will not focus on shareholder value but corporate value as a whole focusing on contribution by each stakeholder. They will be transparent and accountable, environmentally sensitive, socially proactive, aspiring for long-term sustainable growth through an ethical approach. Sustainability has become a big issue. There is a growing recognition that this is my planet and I must keep it out of harm’s way for my children. There is an increasing concern for societal values, poverty, equity, and work life balance, volunteering and community service.

The fundamental perception of tomorrow’s board will be built on turning failures into virtues. Board meetings will be occasions for discussing failures and learning from them. Directors will be skilled to ask questions and be encouraged to do so. Boards would realise the power that is unleashed by the moral courage in admitting mistakes. It creates ability to deal with failures and use them as learning opportunities. Transparency will be the order of the day. There will be rewards for admitting failures so these could serve as models for learning and improvement. Annual reports would faithfully track both success and failure. There will be no effort in egging the profits and sweeping the losses under the carpet. Failing CEOs will not face sacking. There will be a requirement that they serve the company to clear the mess. After all having burnt their fingers earlier they have a better chance to set hings right than someone who is starting without experience.

Annual reports will quantify the degree of environmental damage in production processes. Creation of wealth will be counted in terms of all three parameters: financial, social and environmental capital. Graphs will not only show the quarterly earnings and other financial ratios but also the differential between the lowest and the highest paid person in the organisation. Customers and suppliers will be invited to board meetings to make presentations of their feedback of company's efforts towards triple bottom line. Representatives from office and shop floor employees would also address board meetings.

Boards will be accessible and self-critical groups. They would regularly appraise each other and review the performance of CEO and Chairman marking them out of 10 to ensure 360-degree feedback.

Boards of tomorrow will not confine themselves in air conditioned boardrooms but will spend time on shop floors and plants with service and sales engineers to get the feel of business on the ground. As Mark Goyder Director of Tomorrow's Company says "The unscripted appearance of an independent director at one of the plants premises to sit in on some meetings and take a bowl of soup in the staff canteen with a random group of employees would be unsurprising: as a result when employees had serious doubts about the ethics of a new directive from the head office, they would know that in extremis they could e-mail or phone a board member without fear of reprisal because openness always won over hierarchy." Mark Goyder describes how new independent directors are to be initiated:

"You are a new independent director on two boards. Company A does things in style. You dine well with your fellow directors. The chairman dispatches the board meeting the next day efficiently. There is a general feeling things are going well. And the CEO and the MD seem to be competent people. You are relatively new. You feel proportionately able to ask one, may be two, questions.

Before you get near the board meeting at company B you have had several stages of induction. The chairman explains that your role is not simply to oversee the current reports of performance in the business, but to identify risks and opportunities and hold the business to account against its original purpose and values.

You visit the operations; take lunch in the staff canteen with a mixed group of employees. You meet one of the NGOs that opposed the company. You learn about the major business risks. You meet some major investors. Your induction covers your own ethical position, and how to deal with potential conflicts of interest. You are shown how the company's business principles are communicated to every employee in the world. The company secretary explains that you always have the right of independent access to information. You discuss your own professional development towards achieving chartered director status.

At the end of the induction, you hope that you can describe yourself as an independent director: You would no longer describe yourself as 'non-executive'. And, you ask yourself, how in limited time do you keep your finger on the pulse?"

Boards will discuss any suggestions of Mergers and Acquisitions threadbare. Periodical sustainability report will form the board agenda. The focus will not be on quarterly financial reports but long term sustainability based on triple bottomline approach and balanced business scorecard.

The intangibles will be the biggest business drivers for tomorrow's boards. The main focus will be on corporate ethics and CSR. These will become the most powerful factors for both brand creation and destruction. Transparency will become a competitive differentiator. A MORI survey among corporate communications directors of FTSE 100 companies showed that 93% believed that publishing non-financial information enhanced a company's reputation and made for better management decisions. A model based on a Fortune/Management today have most admired 500 US and 250 UK companies showed a direct correlation between reputation and financial outcomes – share price and credit rating. The survey suggested that reputation on average accounted for 27% of the FTSE 250 Company's market capitalisation. A US study published in February 2004 indicated damaged reputation could take up upto to 4 years to be restored.

Tomorrow's boards will not take CSR as a box ticking exercise driven by external pressures or a PR exercise. They will understand the value of embedding it in the business practices. One of the key tasks of tomorrow's boards would be to develop reputation management systems to monitor reputation. In tomorrow's business bad news will hit companies much harder than today; like tornados tearing apart the guts of the business and shattering the market confidence. CSR will act as insurance against bad news.

The best armour, of course, of tomorrow's boards will be their commitment to training and learning. This will be the largest single factor that would set tomorrow's boards apart from today's boards. Boards will be exposed regularly to self-development programmes to keep themselves abreast of the changes and prepare themselves before the competitors do. They will analyse risks and opportunities faster than the competition and would understand the value of developing their intangible assets. Boards of tomorrow will be the true learning organisations. These boards will be composed of directors whose, task will not be to simply oversea the functioning of the management as a watch dog. Their job will be to identify risks & opportunities for the business. Corporate value today is created not by egging quarterly profits but by building corporate brands. A properly trained director would be a SEER, someone who can manage Social, Environmental & Ethical Risks (SEER) before they occur. Such a director would foresee the problems that are currently bedeviling Walmart in China, Coke in India or Microsoft in Europe. Such directors would coach companies on how to be both local & global. They will meet the aspirational deficit and provide a new strategic intent.

Corporates of today have to recognise that the brand value in 21st century will stem from the public perception of the difference they make to the society and not the size of their profit. Never before in human history has the business in its power to make such a difference to the society. Let us unleash that power and transform people organisations & the society at large. We must begin to question why India continues to be ranked 50th in the World Competitiveness Report, 127th in Human Development Index, 125th in the World Happiness Index and 88th in Corruption Perception Index. How long can we have the dubious distinction of being software giant with the largest number of hungry people and the highest number of illiterate women in the world? Business today has the competence & technology to change all that. Boards have to take the lead.

Shakespeare says "there is a tide in the affairs of men, which taken at the flood, leads on to fortune". We are witnessing that tide. Overseas investors are coming in droves to woo the Great Indian Middle Class. We can increase the size of that middle class and enhance the number of suitors to make this dream sustainable. There is however, a danger lurking in our lethargy. The sub Saharan economies are running neck-to-neck with us. Botswana's performance in equity markets is even better than us.

According to a recent survey of Morgan Stanley Capital International we are below Botswana and rank 12th amongst 27 emerging market. We have to therefore rise upto the occasions and act fast to make the corporate boards the instruments of India’s transformations. Posterity will never forgive us if we falter.