

**Role of Independent Directors in Decision  
Making --Value Addition, Committees with  
Induction Training and Stakeholder's  
Expectations**

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**Vadodara, Gujarat, Mother India**

- **If you think of Money, you cannot do the right thing. Money will come, once you do the right thing.**
- **The unpredictability of the battle for market share and mindshare, the volatility of the environment and the rapid-fire changes that are happening in the business and political landscape have all the trappings of a full-scale war. A mere firefighter cannot pretend to be a warrior. The ability to deal with the emergent conditions of the war demands much more than functional skills. It requires a rare leadership virtue called- *Awareness. This start with Self-Awareness***

## Relevance Of.....

- **Genetic Science**                      **DNA-Deoxyribonucleic Acid**
- **Environment (internal & external)**
- **Education**
- **Experience**
- **Enjoyment**

# Where Do I stand?

- **Self-Governance**                      **Ethics, Values, Principles**
- **Self-Control**
- **Self-Monitoring**
- **Self-Discipline**
- **Self-Knowledge**
- **Self-Image**

## Challenges of

- **Change**
- **Utility**
- **Technology**
- **Knowledge**
- **Identity**
- **Image**
- **Integrity**
- **Character**

# **Divinity v/s Devility**

<u><b>Divinity</b></u>	<u><b>Devility</b></u>
<b>Truth=Sita</b>	<b>Futility=Mandodari</b>
<b>Ethics=Rama</b>	<b>Aggression=Ravana</b>
<b>Economy=Laxman</b>	<b>Stubbornness= Kumbhakarna</b>
<b>Expectation-Shatrughan</b>	<b>Gentleness=Vibhishana</b>
<b>Enlightenment= Bharat</b>	<b>Lust= Shoorpanakha</b>
<b>Empathy=Shabari</b>	<b>Intoxication=Khara</b>
<b>Positive Forces=Monkeys</b>	<b>Harmfulness=Dhooshasan</b>
<b>Effort=Sugreeva</b>	<b>Negative Forces= Asuras</b>
<b>Inspiration=Jambuvan</b>	<b>(Devils)</b>
<b>Devotion=Hanuman</b>	<b>Ego=Vaali</b>
<b>Illumination=Vashishta,</b>	<b>Deceit= Indrajeet</b>
<b>Vishwamitra,</b>	<b>Island of Negativeness = Lanka</b>
<b>Agastya</b>	<b>Illusion= Mareecha</b>

# Interaction of a Company with Society for Accountability

- **Investors and Lenders:** accounting, auditing, laws, stock market, regulations
- **The direct participants in the corporate value creation process:** customers, employees, vendors, consumer protection, labour laws, commercial contracts, etc.
- **For the effect of operations on the physical environment:** Environment regulations
- **For the human condition around their operations:** related to health, education, employment, cultural need of the community, etc.
- **For the political health of the societies in which they operate:** human rights, fair democratic practices, etc.

**“A company’s value system is the guiding light in its hours of darkness, confusion, and self-doubt and when faced with moral dilemma.”**

**– N.R.Narayana Murthy (Founder, Infosys )**

**“Corporate governance is about the spirit in which you do business and about credibility and accountability as shareholders want to be assured of a board’s independence and its willingness to act in their best interest.**

**– Deepak Parekh (Chairman, HDFC Ltd.)**



# **Has Current Corporate Governance Failed?**

- **Failure of Ethics?**
- **Failure of Internal Controls & Internal Audit?**
- **Failure to adhere to Risk Management Practices?**
- **Failure of Independent Directors?**
- **Failure of Chairman of the Board of Directors?**
- **Failure of Credit Rating Agencies?**
- **Failure of Statutory Auditors, wherever relevant?**
- **Ultimately Regulators to blame? What is the status of investigation against “Satyam” Independent Directors?**
- **Failure of Stakeholders in understanding their correct role?**

## **Independent Director**

**An independent Director is one who is objective in Board decisions. Generally, this independence stems from stature, competence, integrity, character, upbringing, confidence in oneself, openness and not having material income derived from the company while he/she is on the board.**

**Leaders of innovation teams are successful when they collaborate, engage in discovery-driven learning and make integrative decisions.**

**Prof Linda A Hill, Harvard University**

## Few Independent Directors

- **CA. Bansibhai S. Mehta**
- **CA. Shailesh V. Haribhakti**
- **Shri R. A. Shah**
- **Shri Cyril Shroff**
- **Shri R. A. Mashelkar**
- **Shri O. P. Bhatt**
- **Dr. J. J Irani**
- **Prof. Ram Chandran**
- **CA. Dileepbhai C. Chokshi**
- **Ms. Rama Bijarpurkar**
- **Shri Omkar Goswami**
- **CA. Mukundbhai M. Chitale**

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# Understanding of Business Objectives

## Financial Performance

- **Achieve Revenue Growth**
- **Sustain Profitability**
- **Increase Revenue Productivity**

## Customer and Market Focus

- **Grow Customer Relationships**
- **Differentiate Customer Offerings**
- **Broaden Geographical Footprint**

## **Execution Excellence**

- **Leverage Global Delivery Model**
- **Control Operational Costs**
- **Improve Quality and Productivity**

## **Organizational Development**

- **Develop and Retain Competencies**
- **Develop Global Workforce**
- **Develop Tiers of Leadership**

## **Induction Training**

- 1. Board Governance Document with Strategy Blue Print**
- 2. Terms of Reference of the Risk and Audit Committee, CSR Committee, Nomination and Remuneration Committee , Stakeholder Grievance Committee**
- 3. Corporate Governance Statement (included in the Last Annual Report)**
- 4. Memorandum & Articles of Association**
- 5. Securities Dealing**
- 6. Corporate Governance Compliance Report**

**7.Code of Business Conduct**

**8.Market Disclosure and Communications**

**9.Plant/s and Office/s visit**

**10.Audit Report on Accounts, Internal Audit Reports and any other Reports-Previous 4(Four) Quarters**

**11.Minutes of Audit Committee, Board Meetings, and other Committees-Previous 4(four) Quarters**

**12.One to One meeting with the CEO/MD and Board members**



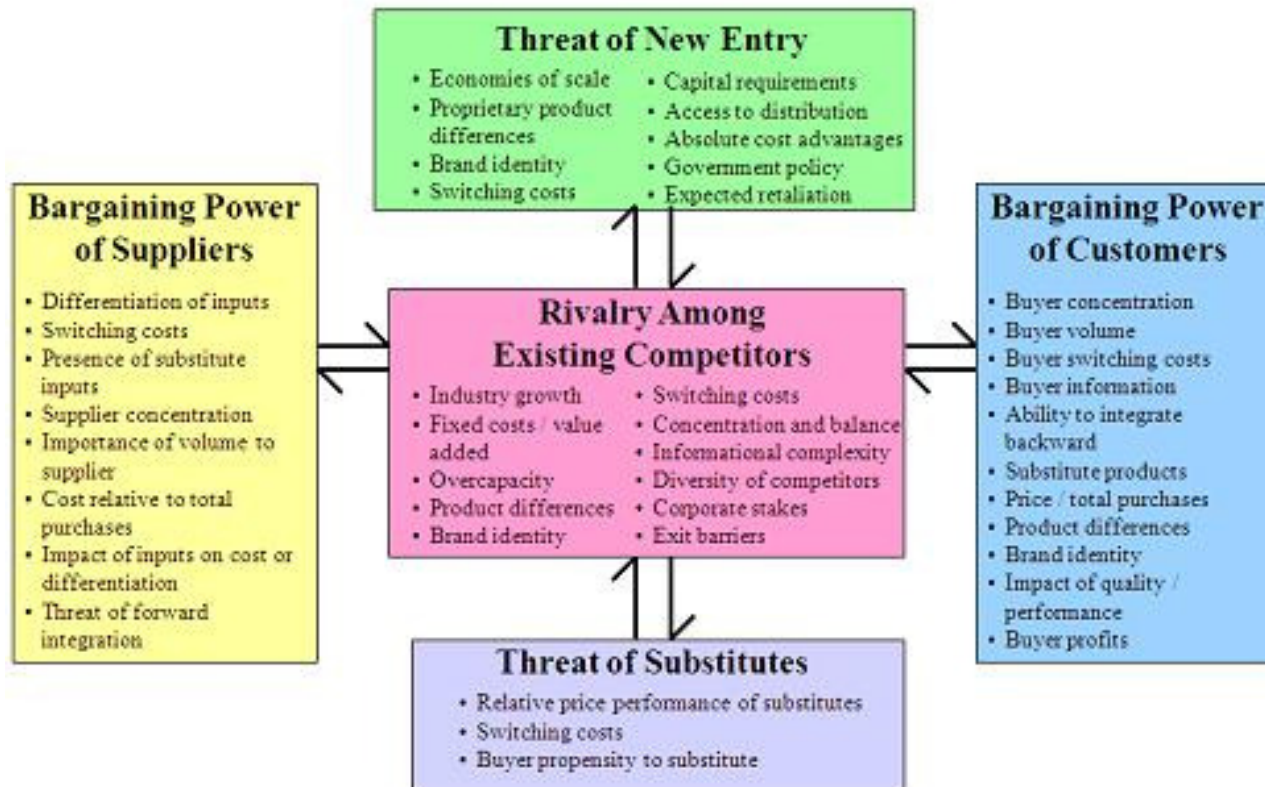
# **Sustainable Working of a Company**

- **Values, Vision and Strategy**
- **Operational Management**
- **Human Capital Management**
- **Accounts, Audit, Finance and Secretarial**

# **Business Model**

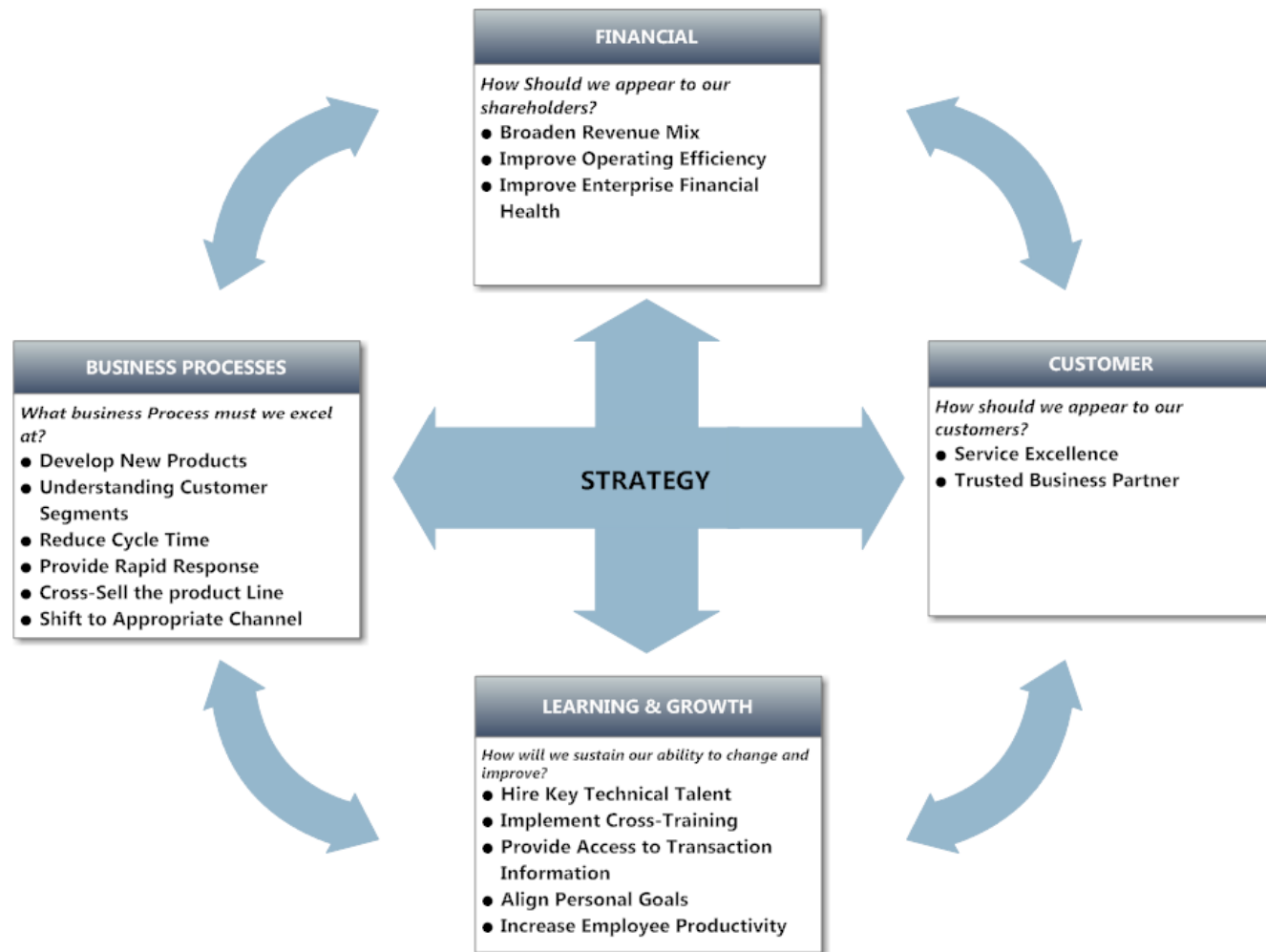
- **Consists of four interlocking elements that, taken together, create and deliver value—**
  - 1) Customer Value Proposition**
  - 2) Profit Formula**
  - 3) Key Resources**
  - 4) Key Processes.**

# Porter's Five Forces Analysis



## **Balance Scorecard**

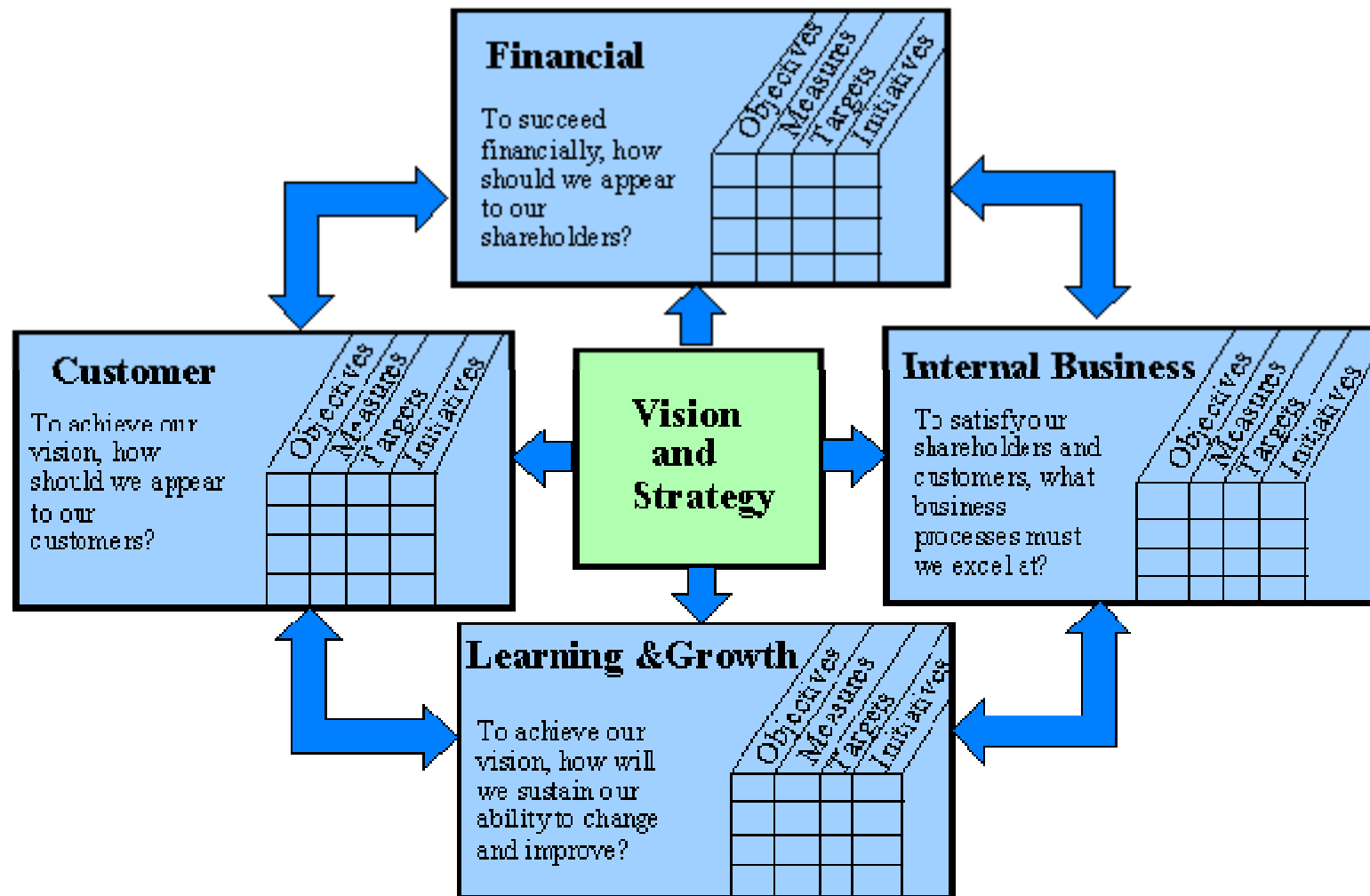
- **A strategic, measurement based management system, proposed by Robert Kaplan and David Norton, which provides a method of aligning business activities to the strategy and monitoring performance of strategic goals over time. Originally, a balanced scorecard is a format for communication about activities consisting of four perspectives each of which should include a small number of important metrics. These should be linked through the business logic inherent in the strategy.**



Adapted from the Balanced Scorecard by Robert S. Kaplan and Dave P. Norton. Harvard Business School Press. 1996.

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## Balanced Scorecard Framework\*



\* Adapted from Kaplan & Norton 1996. *The Balanced Scorecard*. Harvard Business School Press: 9. Original from HBR Jan/Feb 1996, p. 76.

## **Major Issues**

- **Growth Trajectory-Slow**
- **Competition-fierce, unhealthy, unexpected**
- **New Role by Governments across Globe.**
- **Culture Transformation –voluntary and compulsion**
- **Capitalism v/s Socialism-Fight for Political Supremacy among Regions.**
- **Future and Approach of WTO-IMF- ADB- World Bank.**
- **Most Vital—Nature and it's impact on Society.**

## Agenda Papers-Information Architecture

**Boards need the right information (internal and external sources) in the right format at the right time.**

- **Relevant**
- **Timely**
- **Adequate**
- **Transparent**
- **Confidential**
- **Trust**



## **Audit Committee**

- **Annual Budget**
- **Capital Expenditure-3 to 5 Years with Strategy**
- **Internal Control Mechanism**
- **Risk Management Practices**
- **Scope of Internal Audit-Internal or External**
- **Discussion with Internal and Statutory Auditors**
- **Compliances**
- **Quarterly and Annual Accounts-Credibility**



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# **Risk Management**

- **Who is overall responsible ?**
- **Internal control mechanism**
- **Specified areas of risk**
- **People identification for different risks**
- **Areas of concern**
- **Maintenance of records**
- **Consequences of failure to comply with Laws**
- **Monitoring by the Board of Directors**
- **Certification by the Statutory Auditor/  
Practicing Company Secretary**

# **Remuneration and Nomination Committee**

- **Organization Structure**
- **Family Involvement**
- **Authority-Responsibility Clarity**
- **CEO Selection and Remuneration**
- **Selection of Directors including Independent Directors**
- **Role Expectations from Independent Directors**
- **ESOP-Challenges**
- **Training**
- **Appraisal**

# **Stakeholder's Interest Committee**

- **Philosophy of Management**
- **Role of FIIs, Mutual Funds and Minority Shareholders**
- **Treatment with Shareholders**
- **Participation level**

# **Stakeholder Engagement**

- **Providers of Financial Capital**
- **Customers**
- **Employees**
- **Supply Chain Members**
- **Farmers**
- **Government and Regulatory Authorities**
- **Local Communities**
- **Civil Society**
- **Media**

## **An Alert & Knowledgeable Independent Director should lead to...**

- **Better Internal Control and Internal Audit**
- **Good Accounting & Financial Monitoring and Reporting**
- **Adherence to Laws**
- **Right Compensation Structure**
- **Better Execution of Strategy**
- **Better Dividend Policy**
- **Respect in the Society**
- **Responsible Behavior by Executive Management**
- **Better Communication with the Outside World**
- **Better Brand Equity**

**Good Wishes for Co-creation of a Better  
Corporate Citizen.**

***Thank you.***