

Board Effectiveness and Succession Planning



ODGERS BERNDTSON

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Introduction

Odgers Berndtson got together CEOs and board members, from across industries in Kolkata to discuss the theme of 'Board Effectiveness and Succession'. This whitepaper aims to capture the main highlights from the roundtable discussion. The key topics that emerged during the discussion are the expectations from Non-Executive Independent Directors & the board in today's time and the importance of the Board's composition & culture to ensure organizations' growth & agility.

The role of the Board of Directors has greatly expanded to encompass a more strategic and hands-on approach towards corporate governance. Beyond their traditional oversight duties, boards are now expected to actively guide management, ensuring the company remains aligned with its core values and mission. Routine tasks are no longer sufficient; boards must now turn their attention to transformative initiatives and long-term sustainability. The World Economic Forum's Global Risk Report for 2023-2024 has highlighted 34 critical risks that boards must navigate, the Top 5 risks to business being risks arising from extreme weather, AI-generated misinformation & disinformation, societal and/or political polarization, Cost of living crises and cyber-attacks respectively. To address these risks effectively and drive meaningful change, boards are increasingly called upon to play a central role in shaping the company's future trajectory, requiring a diverse blend of skills and expertise among its members to manage human capital and foster meaningful relationships.

“ Board advisory is becoming an increasingly important part of Odgers Berndtson Leadership Advisory services and we have the benefit of proprietary tools to use in measuring board effectiveness and for succession planning. Board effectiveness review covering the aspects of governance, composition, skills, and performance can help organisations benchmark against industry metrics and plan for succession. ”

- Dr. Prasad Medury, Managing Director India, Odgers Berndtson





With heightened expectations and increased accountability, board effectiveness and succession planning have become paramount considerations for organizations seeking sustained success. The ability of board members to engage with key stakeholders, interpret external developments, and demonstrate informed decision-making capabilities has never been more critical. Boards now serve as the linchpin for navigating complex risks, fostering innovation, and steering the company towards sustainable growth. As such, there is a growing demand for board members who possess the requisite skills in human capital management, strategic thinking, and stakeholder engagement.



Non-Executive Directors & Expectations from the Board

Non-Executive Directors (NEDs) are individuals outside of the company's management team who bring valuable perspectives and experience to the board. Their diverse backgrounds from unrelated industries offer a fresh outlook and a strong sense of curiosity that can benefit the organization. These directors are not merely responsible for ensuring compliance, but they also play a crucial role in steering the company toward its growth path. By having independent directors on the board, organizations can ensure a fair and transparent decision-making process, addressing compliance issues that might be overlooked in the pursuit of profitability. NEDs serve as a conduit to innovation and driving transformation, making them indispensable for companies.

“Performance enhancement & compliance are the two most important aspects independent directors are expected to contribute towards. Independent Directors are also expected to understand & bring out the true purpose of the organization.”

- Prabal Basu, Independent Director, Peerless Group

Incorporating NEDs who are tech-savvy and have strategic insight can significantly contribute to an organization's innovation agenda. Their ability to challenge conventional wisdom and offer fresh perspectives can drive creativity and help the company stay ahead in a competitive market. These directors play a vital role in fostering a culture of innovation within the organization, encouraging continuous improvement and adaptation to changing market dynamics. By actively engaging NEDs with diverse experiences and expertise, companies can leverage their knowledge to navigate challenges, seize opportunities, and chart a successful course for the future.

“ Independent directors will have great value in the years to come. Their expertise can help foresee compliance issues that often get overlooked by business leaders whose focus revolves around operational efficiency. But Independent Directors shouldn't just be brought in at the time of crisis, rather their opinion should be taken into consideration right in the beginning, at the strategy level. ”

- Gaurav Ghosh, Vice Chairman and Managing Director, J. Thomas & Co

NED's role is crucial and should not be brought in as an afterthought; they should be involved from the beginning stages. Leaders pointed out that despite being experts, NEDs are currently underutilized within companies. Many organizations tend to rely heavily on management consultants for transformation projects instead of leveraging the expertise of these directors. There is also a notable lack of talent for NEDs with effective experience in the market, which hinders their ability to effectively question a CEO's strategy and pursue results that are sustainable in the long run. This highlights the need for companies to value and utilize the expertise of their non-executive directors more effectively. Leaders observed that many NEDs lack this experience, which can affect their ability to see problems from a comprehensive perspective and propose sustainable solutions. NEDs with prior business-running experience can bridge this gap and provide holistic solutions.

Organizations can take advantage of the opportunity to develop Non-Executive Directors (NEDs) through internal succession programs. Public Sector Undertakings (PSUs) in India demonstrate a stronger case of succession planning compared to the private sector, where fewer leaders are given the chance to advance to the board. Leaders observed that a lack of defined steps or internal training programs for grooming successors is evident, which is leading to a heavier reliance on external consultants. By grooming NEDs internally, companies can ensure a seamless transition, as these individuals are already familiar with the organization's values, culture, and operations. This approach can also promote diversity and inclusion within the boardroom by providing pathways for internal talent to advance into leadership positions.





Board Composition

The Business Case for a Diverse Board

A diverse board is a crucial component in a business's success, as it brings significant value through the knowledge & expertise brought on by different viewpoints and insights of the board members. Regardless of the extent of change in the board's composition, whether in terms of age or the profiles of the members, diversity fosters an environment where tough questions are asked, and innovative ideas are generated. Leaders from varied backgrounds and industries challenge the status quo, leading to more robust decision-making processes and strategic planning.

With an increasing number of board members bringing diverse experiences and expertise, there is a heightened focus on their role in governance, economic performance, and social impact, such as in the realm of Environmental, Social, and Governance (ESG) matters. Diverse boards have the potential to shape a company's priorities and strategies in a way that resonates with both internal and external stakeholders, creating a harmonious balance between profitability and social responsibility. By incorporating perspectives from a wide range of backgrounds, businesses can better anticipate market trends, foster innovation, and drive sustainable growth for long-term success.

“ Board members with diverse experience and expertise are expected to contribute not only to governance but also on how the company will perform with respect to economic & social aspects. Board member contributions towards ESG have thus come to the forefront. ”

- Pandanda Madappa, Managing Director, Macmet India



Current Scenario and Expectations

ESG compliance in India encompasses a broad range of areas, extending beyond merely addressing decarbonization. A comprehensive ESG framework entails establishing policies such as Anti-Bribery and Corruption (ABAC) and whistleblower policies to ensure transparency within organizations.

In the current landscape of board composition, there is a notable shift towards inclusivity, particularly in considering first-time women appointees to the board. Despite this positive momentum, a concern has emerged regarding the limited pool of talented women non-executive independent directors available for such appointments. The emphasis on diversity extends beyond just gender representation, now encompassing specialization, age diversity, and a range of other factors. As boards become more diverse, there is a pressing need to explore how these differences can be effectively integrated to enhance the overall board performance.

Here, the leaders note an opportunity for the establishment of Standard Operating Procedures (SOPs) for board members. By outlining clear expectations and guidelines, SOPs promote cohesion and effectiveness within the board, harnessing the unique strengths that each member, regardless of background or experience, brings to the table.

“ There is a clear expectation from appointed Independent Directors to bring to light unforeseen factors that can impact the business in a Brittle, Anxious, Non-linear, and Incomprehensible (BANI) World. The board plays a very significant role in deciding and guiding the executive management in creating the organization’s value & purpose, two important guiding forces for a business. ”

- Arijit Basu, Managing Director, Veedol Engine Oils

Board members with diverse backgrounds play a crucial role in bringing unique perspectives and psychological insights to the companies they serve. While there is a clear, mandated expectation for them to contribute in this way, boards often prefer to operate within their comfort zones. It has been observed that there is a hesitance to introduce Non-Executive Directors (NEDs) stemming from the fear of disrupting the organization’s current dynamics. Leaders have noticed that boards are concerned about the potential of individuals with a short-term perspective to create disruption, sometimes failing to recognize the long-term advantages that diverse perspectives can offer to the boardroom.





“ The board does not want to go out of its comfort zone by bringing in an Independent Director who may be very tech savvy and has the potential to disrupt the everyday running of the organization. ”

- Madan Mohan Chakraborty, CEO & Managing Director India, Iskraemeco

It is common for the main promoter and executive board to gravitate towards trusted familiar faces, such as family members and associations & networks. This inclination towards a comfort zone is deeply ingrained and can lead to resistance towards diversifying the boardroom. The reluctance to bring in individuals who may challenge the status quo reflects a mindset fixated on maintaining stability, rather than embracing the potential disruption that often follows before innovation arising from diverse perspectives.

Board Appointments & Succession Planning

In the Indian business context, placeholders within the board, such as family members, often lack significant value. Each board seat presents an opportunity to bring a unique perspective to the table and provide new insights into operations, strategy, and transformation, which may not be fully realized with placeholders. Many companies recognize the importance of including board members with global exposure, including younger board members, that may have Ivy-League education. These members, even if they are family, are better positioned to understand the needs and expectations of younger talent within the organization, bringing valuable insights and diverse perspectives to the boardroom discussions.

With an increasing emphasis on Non-Executive and Independent Directors who bring diverse experience and expertise, the selection process must be thorough. Leaders during the dialogue emphasized that it is crucial to have checks in place to ensure that each board member aligns with the overall organization's goals and can make a meaningful contribution.

“ There is a particular muscle memory to executives and they are often not able to look at a problem afresh. Non-Executive Board members are so important as they bring a fresh perspective to the problem. The most curious Independent Directors are the ones who are not from the same sector. Their role is to bring a fresh dynamic to the board, rather than just look at performance. ”

- Anuj Singh, MD & CEO, Spencer's Retail

However, it was also noted that boards often tend to appoint NEDs from their existing network, which can lead to a lack of diversity and differing opinions. This practice may limit the board's ability to tap into younger talent and individuals from different backgrounds who could offer fresh perspectives. Boards need to broaden their pool of candidates to ensure a more diverse and inclusive board composition.

Moreover, robust succession planning is imperative to mitigate risks posed by external unforeseen factors. In the event that a preferred candidate does not perform well during the selection process, having a backup plan in place is essential for continuity & the board to be effective. By anticipating potential challenges and having the necessary risk strategy in place, boards can ensure a seamless transition in times of uncertainty.





Conclusion

In conclusion, the effectiveness of boards and the role Non-Executive Directors (NEDs) play are crucial in today's dynamic business landscape. Diverse boards not only attract top talent and gain credibility with investors, but also play a pivotal role in steering the organizations towards its core purpose. Addressing risks and driving transformative change are key responsibilities of the board.

The inclusion of NEDs significantly enhances board discussions and decision-making processes. However, training and succession planning are imperative to ensure their continued value. Despite changes in board composition, such as age or profile, significant contributions can be leveraged.

Companies must demonstrate openness to diversifying perspectives by selecting board members from various backgrounds and expertise, moving away from traditional networks and familial connections. Embracing these practices will lead to more effective boards and ultimately, greater organizational success.

“ In an era where assertive shareholders, innovative millennial customers, and impact-driven investors converge, they demand from Boards not only traditional growth and profitability but a profound commitment to Purpose, Value, and Inclusivity. Today's Boards must navigate the complexities of DEI, ESG, geopolitical dynamics, and cutting-edge technologies, ensuring long-term sustainability over mere immediate achievements. ”

- **Ambarish Dasgupta, Senior Partner, Intueri Consulting LLP**



Thanks to all the eminent participants of the roundtable:

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- Anand Holani, Consultant - Industrial Practice, Odgers Berndtson
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- Gaurav Ghosh, Vice Chairman and Managing Director, J. Thomas & Co
- Kaushik DasGupta, Partner & Lead - Consumer Retail & Media Practice, Odgers Berndtson
- Madan Mohan Chakraborty, CEO & Managing Director India, Iskraemeco
- Pandanda Madappa, Managing Director, Macmet India
- Prabal Basu, Independent Director, Peerless Group
- Dr. Prasad Medury, Managing Director India, Odgers Berndtson



About Odgers Berndtson

Great Boards want to demonstrate they are delivering significant value to executives and other relevant stakeholders, as well as fulfilling regulatory or sector codes and guidelines. Our Board services focus on providing independent reviews, board appointments and succession planning that are designed to support this journey.

Our leadership consulting and advisory services, encompassing board services, elevate the capability of your leadership team, delivering sustainable performance and value for the organization and key stakeholders.

Our Board effectiveness reviews are a valuable platform to identify relevant changes to the organization's future ambitions, as well as ensure the Board recognises its capability, governance, and agility. Our approach triangulates self-ratings in online governance and behavioural surveys with best practice benchmarks. Psychometric profiling maps the strengths in the Board competencies, cognitive agility, and culture to enable performance-elevating changes.

The Board review is commissioned as a distinct assignment, following our due diligence regarding the current and future context of the organization, completed within pre-agreed timelines and milestones. Our Board performance workshops foster developing new mindsets and approaches by Board directors to secure a purposeful culture, develop a future-proof strategy, become effective decision-makers, deliver dynamic governance, influence relevant stakeholders and actively manage Board and CEO succession.

If you wish to explore the alignment of your Board with industry best practices, do not hesitate to get in touch with us.

Get In Touch with Us



Dr. Prasad Medury

Managing Director - India
prasad.medury@odgersberndtson.com



Kaushik DasGupta

Partner & Lead - Consumer Retail & Media Practice
kaushik.dasgupta@odgersberndtson.com



Anand Holani

Consultant - Industrial Practice
anand.holani@odgersberndtson.com



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www.odgersberndtson.com