

Effective Independent Directors'

Governance

- In the context of a Corporate Entity can be said to be an Appropriate Structure and Processes that are directed towards Growth while addressing the concerns of all Stake Holders.
- Governance is also what is Right rather than what can be justified as being Right

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Governance

- The Board is a group of Individuals and we all have our frailties. Only the collective conscience of Independent and Executive Directors can ensure proper Governance.
- To assume that only Independent Directors can ensure Governance is a myth.

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Stakeholders

- Shareholders
- Customers
- Suppliers
- Employees
- Government
- Society

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Strategy

- The Board as a whole is responsible for Strategy Approval.
- Formulating the Strategy is the role of Executive Management.
- Organization where the Chairperson of the Board and the CEO are the same person, the task is more challenging.

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Strategy

- For Independent Directors to be effective, deeper understanding of the business is a pre requisite.
- Regular interaction with the Senior Business / Operations and Functional Managers is the key to get a feel for the business and the market place.

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Strategy

- Dovetailing the Budget Approval with Strategy is essential and the Board has to set a process in the regard.
- The Budgeting Process must be able to demonstrate the link to the Strategy.
- Developing Key Metrics for the Strategy and the Budgetary Targets for these Metrics is the key to create an effective Strategy Realization Model.

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Insider Trading

- Could be defined as unfair use of price sensitive information available to the Promoters, Directors and Employees for personal benefit.
- Goes against the very basic concept that all shareholders need to be on an equal footing.
- Owners they all are except for the extent of ownership.

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Insider Trading

- The Board has to ensure that there is a due process for managing this very challenging aspect of Governance.
- Demonstrated conduct of the Directors and Senior Management is the key to success of the process.

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Insider Training - Key Process Issues

- Definition of Price Sensitive Information
- Availability of the Information
- Compliance Officer and the Stature
- Who are Insiders
- Disclosures and Undertaking
- Threshold Value for Disclosers
- Freeze Transactions Period
- Tracking and Reporting

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Related Party Transactions

- Transactions between the Company and its Promoters / Directors AND /OR their relatives.
- Transactions between the Company and other entities where the Promoters / Directors AND / OR their relatives are Directors or significant shareholders
- Transactions between Multinational Corporations and their subsidiaries.

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Related Party Transactions

- The Companies Act has provisions relating to Related Party Transactions
- Disclosure of the related party transactions is also mandatory as a part of Accounts.
- Disclosures currently do not convey the full picture
- Board has to have a process through which these issues are addressed.

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Related Party Transactions- Illustrative

- Purchase / Sale of Materials and Services
- Rental agreements for Commercial or Residential Space
- Outsourcing Contracts
- Technical / Brand Royalty Payments
- Sale / Purchase of Assets
- Sale / Purchase of a Division or a Business
- Loans / Advances to relatives of Promoters / Directors or to entities controlled by relatives

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Related Party Transactions- Issues

- Is the transaction really necessary
- Do these add value to the Company
- Have other options being examined
- Is the price or value derived on an Arms Length Basis
- Are there provisions which could become onerous in future
- **Does this feel right – This is the Acid Test**

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Succession

- Succession Planning is one of the most important responsibilities of the CEO
- The Board has a significant responsibility as the decision has significant and long term impact on the company
- Setting a process is more challenging if the Company is family controlled

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Succession

- The Board needs to devise a framework
- The framework needs to reflect the Company's History and Culture as well as what the future will need
- CEO to identify possible successors
- The Board and the CEO to define the grooming process and track development
- The Board needs regular interaction with the potential successors

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Succession – Challenges

- In a family controlled company, is the successor already a foregone conclusion
- In a Foreign Multinational, is the parent prepared for the process
- Is the Board itself prepared to go through the effort
- Does the CEO support the process

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Board Effectiveness – Some Issues

- Composition of the Board
- Background of Directors
- Number of Directorships
- Directors' Remuneration
- Self Appraisal
- Working with and through the CEO