

Purpose Driven Governance



Enorasi
Intueri's 5 year event

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06-Oct-2023

We live in a Volatile World

Disrupted Business Models

Advancement in new technologies

Broken and Inefficient Supply Chain – Try buy a new iphone or a car and see the delivery time

Fast Changing Technology becoming pervasive and making lives more difficult

Geo-Political Risks

ESG

Socio-Economic Risk

Global Economy Contracting

Unemployment

Recession

India Rupee at all time low

Changing Regulatory landscape

Trade war

Shift from Globalisation to Nationalist

Companies and Managements are dealing with uncertain and challenging times

The next paradigm shift – Moving towards Industry and Society 5.0

As we head into 2024, the landscape is again ripe for a tectonic shift in thinking



- The fifth industrial revolution is already underway.
- Revolutions are fast, disruptive and destructive.
- And there is no going back.

4th industrial Revolution is a lived reality now. Now the next phase has begun.

- **4th IR was** about **Connected, Interactive and Intuitive** emerging technologies – aimed at deriving maximum **Cost Optimization** and **Time Efficiency**.
- **5th IR is about:**
 - **Sustainability, Governance and Social Impact** – **Social Inclusion, Environmental Sustainability** and **Improved Accountability**.
 - **"Super Smart Society"** - resolving various social challenges by incorporating innovations such as **AI, Robots and Big Data into society**.
 - It is a vision where humans, nature and technology find a circular economy of balance – **Smart Society - Sustainability, eco-friendly, zero carbon**
 - The emphasis will be - **Satisfying Individual Needs, Solving Problems and Creating Value**.

It is all about Sustainability, Governance and Social Impact

How does Leadership see itself in the changing times

**Purpose Driven
Sharp and Clear Vision
Collaborative and Conscience driven
Courageous
Risk Taker
Focused
Resilient
Agile**



What is being discussed at Boards today

People

Technology

ESG

Changing Regulations

Geopolitical impact

Recession

Cyber Security

Related Party Transactions

Building resilience and create sustainable value

Business Continuity

*Shareholders are viewing
board meetings as big
opportunities for
engagement.*

There is a shift from Shareholder Primacy to a broader Stakeholder Perspective

The story of business has changed

OLD STORY

It is about making profit

It is about Shareholder or Owners

It is about keeping self interest in mind

NEW STORY

It should be purpose driven

It is about stakeholders

Now it is about working in larger interest

Corporates are expected to think beyond financial results

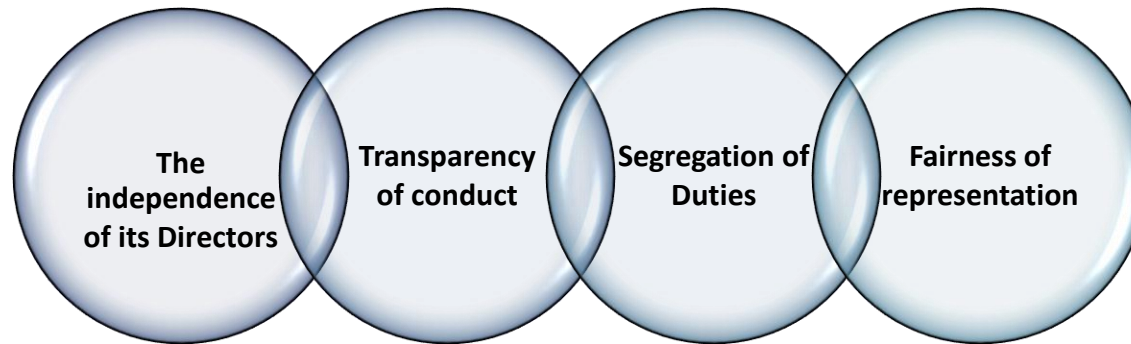
- **Creating value** for the customer
- **Positively impacting** the society
- Generating **financial return** for shareholders
- **Financial figures alone no longer tell a company's complete story. They also need to act lawfully with a sense of social responsibility and embrace ESG.**

It is not just about being **legally right**, it is about being **ethically right**. ***Moral Compass has become the order of the day.***

Evolving Boards and their roles...

The pace of change is very fast, and we need to keep pace with it

Indispensable traits for a high-functioning board:



- Act as a **mentor, coach and guide** to a company and help them **improve corporate credibility and accountability**.
- Act in **good faith and in the best interests** of the company, its employees, the shareholders, the community and for the protection of environment
- ensure **good corporate conduct** and **governance practices**
- Need to **focus on stewardship and oversight**.
- Being an **informed Director** is the first step to becoming a useful director. Exercise duties with **due and reasonable care, skill and diligence** and **exercise independent judgment**
- **Avoid conflicts of interest**

Handling **greater issues with greater efficiencies** and **multidisciplinary expertise**

We need to start at the basics

Every board member should be familiar with their basic responsibilities, which include:

- **Duty of Care** — Ensuring the assets of company are used with prudence and care.
- **Duty of Responsibility** — Ensuring the board makes decisions in the company's best interest.
- **Duty of Accountability** — Ensuring the company is continually in compliance with its bylaws and all other laws and regulations.

And above all...

Remaining **HUMANE** through the entire process

**Strategy and Culture are
vitally important levers in
the quest for high
performance**

Purpose – At the core of Strategy

- Does the top leadership live the Purpose that has been put up through their actions
- Does the purpose of the organization continue to inspire its stakeholders?
- Is the purpose completely clear to customers and employees?
- Can staff at all levels talk about it?
- Do we see it being lived out in decision-making, actions, communications, and measurement?
- Does the purpose reflect the organization's roots and history?
- Does it reflect in Direction & Communication?
- Larger interest -Society & Sustainability?

How can Boards make a difference

- Shifting societal values
- An upheaval in how the role of business is defined
- The move to require businesses to create shared value
- The culture imperative: the responsibility of boards to oversee corporate culture

Important areas that Boards should be looking at

Governance is key

In case of complicated matters – IDs can take views of an expert. They can be involved in the appointment of the subject matter expert

IDs need to evaluate their decisions in unbiased and fairway

Legal and Compliance review – evaluate what process was followed and whether it was checked by an independent person outside the organization

When Board says work is done, they should ask for an engagement letter to find out what was the purpose of the evaluation

Evaluate all related party transaction with sceptic view

In case the CEO is a dominant personality then one needs to be on high alert

Agenda should be sent well in advance and ensure all important matters have been listed for discussion

Important to have Senior Independent Director especially where there is no empowered Independent Chairman

Board's role is to Govern and not to run the Firm which is the Executive Committee's role

Think of the reputational damage caused by tainted cultures –

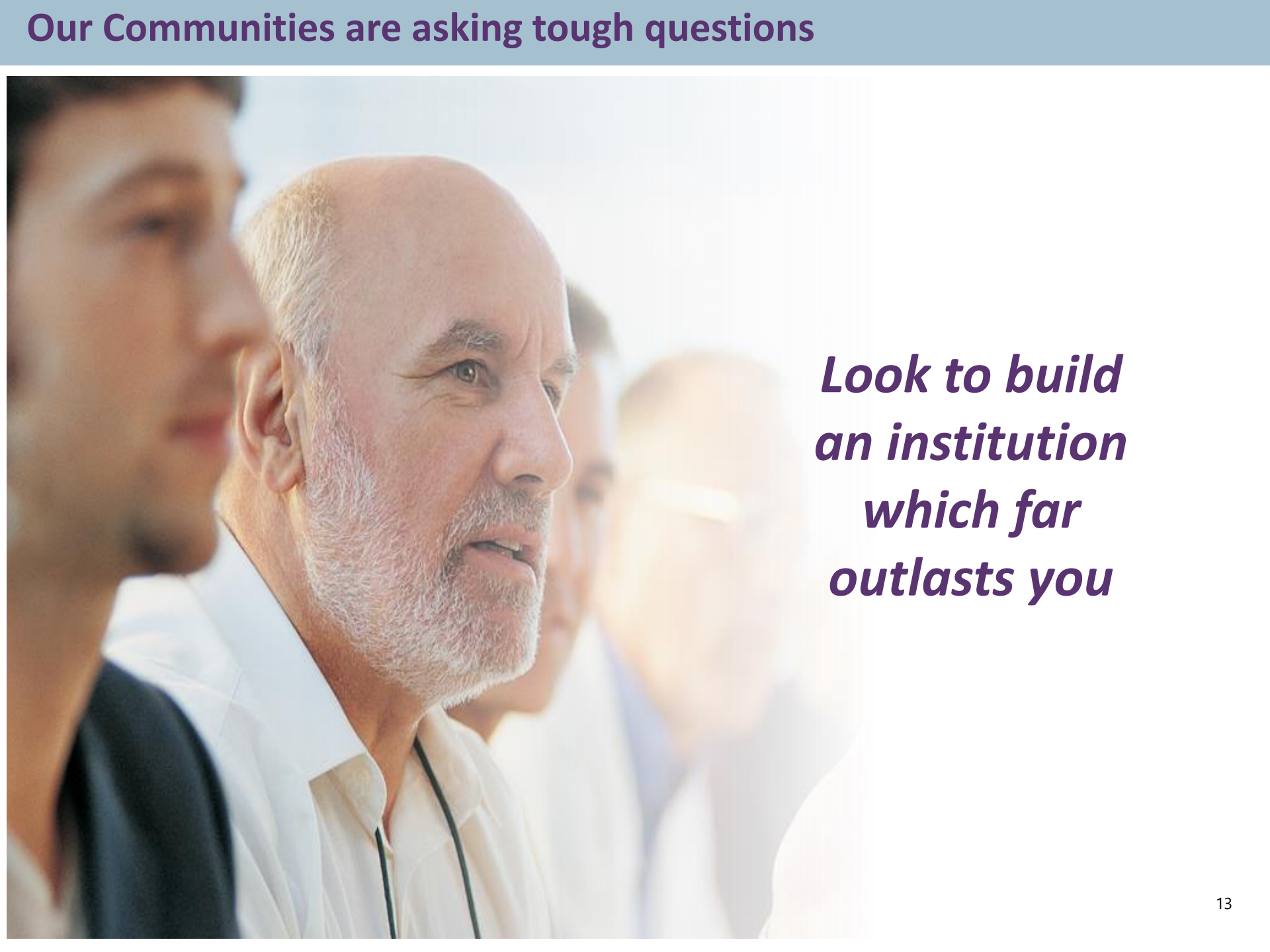
- *in the Wells Fargo sales scandal,*
- *the VW emissions fiasco,*
- *the Boeing 737 Max 8 disasters.*

Each of these were largely the outcome of cultures misaligned with the ongoing interests of their respective firms.

Directors need to –

- **Act with Integrity, Lead by example** and promote the desired culture
- Ensure that the **Culture of the company is a force for good**
- Consider how your **Culture is communicated and reinforced**
- Strongly consider Culture when it comes to **Strategic Decisions, Organizational Design, Hiring and Development.**
- Ask management team to **measure and monitor progress** on Culture
- **Carve out enough time** to discuss Culture at board level

The damage done by a failed culture can be devastating, but the benefits of investing in a healthy one are immense.

A photograph showing a group of people in profile, looking towards the right. The man in the foreground has a grey beard and is wearing a white shirt. The background is bright and out of focus.

***Look to build
an institution
which far
outlasts you***

Increased focus on 'S' part in ESG

The S part of ESG –

- People,
- Diversity and Inclusion,
- issues around LGBTQ,
- Age Discrimination,
- Working Conditions,
- Women Empowerment,
- Wages, drinking water etc.

*These have become serious issues and are demanding proper Governance around them and for dealing with these Companies need to not only attract on their boards the **best and brightest people** in their field, but more importantly the **people with diverse and strong culture background** that are the best fit and are aligned with their company culture.*

Relooking at Board Constitution

Competency based selection

Sector knowledge

Domain Expertise

Good Understanding of business environment.

Ability to work with the executive team and support them to deal with the business challenges through their strategic inputs

Understanding of new technology

Strategic thinking and broad mindset

Abreast with the changing regulatory landscape and required compliance

Ability to skilfully manage risk

Multi Generational / Culture?



The brilliant CEO knows that they want both qualified members of their board that can point out problems before they occur rather than either trying to benefit from them or keeping quiet and looked at as yes person.

Advantage of Balanced and Diverse Boards

- Quality of discussions are of very different level - Diverse perspective, Improved decision
- Helps improve the overall hygiene of the company - Fosters a healthy balance
- Board diversity has effects on many business areas, such as financial performance, governance quality and risk preferences - Improved profitability and Better growth
- Helps improve the Culture of the company because the quality of their boards and the discussion gets replicated into the entire organisation.
- Rating Agencies, Regulators, Investors and other Stakeholders look at them differently – better perception and Larger Stakeholder interest is given the topmost priority
- Concentrate on competencies
- Take a hard look at board culture
- It creates its own checks and balances

Building and sustaining a diverse and inclusive board is an ongoing journey, with moments that inspire them to rethink some of their own practices and beliefs.



‘Risk is a function of how
poorly a strategy will
perform if the ‘wrong’
scenario occurs.’

- Michael Porter

Classic all-time Failure

LEHMAN BROTHERS

Kodak



NOKIA

Disruption
Competition
Lack of Oversight
Myopia
Weak Governance

Recent Failures



What were the risks and more importantly, how were they assessed?



How accountable was the board?



What can other companies learn?



How could these meltdowns have been prevented?

To survive and thrive in a VUCA world, businesses need to have VUCA approach and that is – **Vision, Understanding, Clarity and Adaptability** adopt to this dynamic business environment otherwise it won't be long before they phase out!

With Growth comes Risk – some Predictable – some Unpredictable

Each of these quadrants is associated with a unique understanding and awareness of the risk in current situation:

Knowns Unknowns	Known Knowns <i>Things we are aware of and understand.</i>	Known Unknowns <i>Things we are aware of but don't understand.</i>
	Unknown Knowns <i>Things we understand but are not aware of.</i>	Unknown Unknowns <i>Things we are neither aware of nor understand.</i>
	Knowns	Unknowns

Most of the risks events today happen in category 3 and 4 which have to be dealt with on immediate basis.

- **Known knowns: Fact or Gray Rhino**
You know the Rhino exists and it can be destructive and yet you take no action, or you take action late.
- **Known unknowns: Catastrophe or Black Swan**
One can see the event occurring which is unique and has large implications like Covid, Financial crisis etc but you do not know how to deal with the situation. For this you need to be innovative, creative and out of box thinkers. Skills of leadership are tested such scenario.
- **Unknown knowns: Hidden value or Talent -not known -** We are not able to put the talent to the right test and extract the best from them or there are hidden assets within the organisations which you have not able to capitalize.
- **Unknown unknowns: Cannot predict or plan**
This is moving into uncharted territory like new markets or new solutions. You need to ensure that the reward you are going to get is worth taking the risk. You need to be **Courageous, Agile and willing to fail.**

It takes 20 years to build a reputation and five minutes to ruin it. If you think about that you'll do things differently.