

# Corporate Governance Developments in India are Fueling Demand for a Diverse Cadre of Independent, Nonexecutive Directors, Concludes New Report by The Directors' Collective™

PRESS RELEASE PR Newswire  
Sep. 13, 2018, 12:00 AM

NEW YORK, Sept. 13, 2018 /PRNewswire/ -- Over the last few years, Indian companies have increasingly embraced the notion of independent board leadership promoted by many corporate governance codes around the world. Still, CEO duality (the practice where the CEO also holds the post of board chair) continues to be observed in nearly a third of the NIFTY 500 companies and, even when the two roles are separate, the chair is rarely an independent director.

Across industries, 31.4 percent of CEOs also lead the board of directors, with the highest numbers (56.7 percent) found in sectors such as real estate, where the promoter-ownership structure is prevalent. Of non-CEO chairs, only 17 percent meet independence standards. Under newly issued Recommendations by the Securities and Exchange Board of India (SEBI), however, it will soon be mandatory for top-500 listed entities to ensure that the chairperson be a non-executive director. The demand for a cadre of professional board members, which the country is still developing, is likely to increase, prompting companies to consider candidates with a wide array of backgrounds and skills.

These are some of the findings from *Corporate Board Practices – 2018 India Edition*, which was published today by *The Directors' Collective*™, a partnership among The Conference Board, KPMG in India, and Russell Reynolds Associates. The report, in its inaugural edition, is a comprehensive review of board composition, governance policies and executive remuneration disclosure made by Indian companies that are publicly traded in the NIFTY 500 index. It was designed as a practical resource for directors, general counsel, and company secretaries interested in remaining apprised of corporate governance trends and in benchmarking their company's practices against its peers.

"Benchmarking is at the core of The Conference Board's mission of promoting better corporate transparency and compliance, and we are excited to bring to India a knowledge resource and practical tool that has served well our business members in the United States," said Matteo Tonello, Vice President and Managing Director of Corporate Leadership at The Conference Board. "Indian corporate boards are undergoing a profound renewal, both demographically and in terms of expanded oversight responsibilities. Through *The Directors' Collective*, The Conference Board can support companies with reliable information on what's changing and the challenges that may be ahead. This study, in particular, signals the importance for organizations to institute a rigorous process for board refreshment and director recruitment so as to meet new regulatory expectations for independence and diversity."

In total, the study aggregates data for a set of 4,746 corporate board members, drawn from annual reports filed by NIFTY 500 companies as of January 5, 2018. To compile it, *The Directors' Collective* sought the collaboration of data provider PRIME Database Group. For comparative purposes, the publication provides segmentations by six company size groups (by annual revenue) and the 11 business sectors of the Global Industry Classification Standard (GICS). The quantitative analysis is complemented with a discussion of recently adopted Recommendations (in fact, mandatory rules) by the Securities and Exchange Board of India. While some of the recommendations will come into effect on April 1, 2019 and others are delayed to April 1, 2020, their release is already influencing the director nomination process.

Other key findings include:

- Progress on director engagement has been tangible, but companies should consider making better use of newly allowed technologies to improve board meeting attendance. Despite the Companies Act, 2013, which allowed for alternative modes of attendance at meetings through electronic media, as high as 25 percent of all directors are reported to have attended less than 75 percent of the board meetings—another corporate governance indicator contrasting with international standards.
- To increase the effectiveness of management oversight, companies should pursue a new generation of business talent for their board membership. Data shows that the average age of directors exceeds international standards, with several directors in their nineties who continue to serve on the basis of a special resolution exempting them from statutory rules. In traditional, old-economy business sectors such as industrials and materials, the average age of the oldest board member is 96 years.

"The SEBI mandate is propelling a new degree of transformation of Indian corporate governance practice. While the immediate target is the NIFTY 500 index, the expectation is that other companies will emulate their larger counterparts and adhere to these heightened standards," said Manali Paranjpe, Research Associate with The Conference Board and co-author of the publication.

"While regulators have done a commendable job in bringing laws to improve corporate governance practices, it would be critical to see if companies follow these in spirit and not just as a check box compliance exercise," added Pranav Haldea, Managing Director of the PRIME Database Group. This explains the importance of a monitoring tool such as *Corporate Board Practices*, which tracks practice developments and identifies evolving trends.

*The Directors' Collective* brings together the independent research and thought leadership of The Conference Board with the subject matter and global expertise of professional services firm KPMG and executive search firm Russell Reynolds Associates. The collaboration is designed to guide corporate directors in carrying governance and compliance responsibilities as India Inc. prepares for the complex demands placed upon board members and senior executives by the Companies Act, 2013, the listing regulations of the Securities and Exchange Board of India, and other upcoming industry-specific regulations. The Directors' Collective is assembling a holistic suite of knowledge assets – encompassing educational publications and benchmarking research; immersive workshops, webcasts and other training programs; and peer networking groups.

According to Sanjay Kapoor, Managing Director at Russell Reynolds Associates: "This is an excellent piece of work, aimed at ensuring that as governance practices evolve in India, we have sufficient benchmarks to aspire for and exceed. Being Best in Class is a key aspiration for many of the Directors we engage with in the course of our business."

"The acceptance of several Kotak Committee recommendations is expected to help move the needle towards more balanced, independent and effective boards in organizations across the country. Over a period of time, this will be a key enabler to deliver unlocked value for shareholders," concluded Pankaj Arora, Partner, Governance, Risk, and Compliance Services at KPMG in India.

To download Corporate Board Practices-2018 India Edition, visit <https://www.conference-board.org/publications/publicationdetail.cfm?publicationid=8113>. To learn more about The Directors' Collective visit <https://www.conference-board.org/thedirectorscollective/>

## About The Conference Board

The Conference Board is a global, independent business membership and research association working in the public interest. Our mission is unique: To provide the world's leading organizations with the practical knowledge they need to improve their performance and better serve society. The

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KPMG in India, a professional services firm, is the Indian member firm affiliated with KPMG International and was established in September 1993. Our professionals leverage the global network of firms, providing tax and advisory services, besides knowledge about markets and competition. KPMG has offices across India in Ahmedabad, Bengaluru, Chandigarh, Chennai, Gurugram, Hyderabad, Jaipur, Kochi, Kolkata, Mumbai, Noida, Pune and Vadodara.

KPMG in India offers services to national and international clients in India across sectors. We strive to provide rapid, performance-based, industry-focused and technology-enabled services, which reflect a shared knowledge of global and local industries and our experience of the Indian business environment.

#### **About Russell Reynolds Associates**

Russell Reynolds Associates is a global search and leadership advisory firm. Our 425+ consultants in 46 offices work with public, private and nonprofit organizations across all industries and regions. We help our clients build teams of transformational leaders who can meet today's challenges and anticipate the digital, economic and political trends that are reshaping the global business environment. From helping boards with their structure, culture and effectiveness to identifying, assessing and defining the best leadership for organizations – our teams bring their decades of expertise to help clients solve their most complex leadership issues. [www.russellreynolds.com](http://www.russellreynolds.com)

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PRIME Database Group is India's leading provider of data on the capital markets. The Group runs several databases/ websites as follows: **primedatabase.com** - India's first and still the only database dedicated to the primary capital market, covering fundraising by the Indian corporate sector and the government through equity, debt, or securitisation, in India or abroad; **nseinfobase.com** – a database of listed corporations covering data on boards of directors, insider trading, share pledging, takeover filings, shareholding, AGM/EGM/postal ballot resolutions, board meeting resolutions, investor meets, auditors, annual reports, CSR, corporate actions, key managerial personnel, company contact details and financial results; **watchoutinvestors.com** - a website aimed at alerting and protecting investors and serving as a national registry of information on companies/persons who have been indicted for economic malpractice/noncompliance of laws/regulations/default by over 35 regulatory bodies; **primemfdatabase.com** - a database on portfolios and league tables of AuMs of Mutual Funds; **primebbdatabase.com** - a database of bulk and block deals; **primecrmdatabase.com** - a database of credit rating migrations; **primecbdatabse.com** - a database of public and privately placed corporate bonds containing both primary market (issuance) and secondary market (trading) data; **primemcadatabase.com** - a database of RoC-filings of over 17 lakh companies; **primeivcadatabase.com** - a database of PE/VC Firms investing in India and service providers to this industry; **primedirectors.com** - an online platform to enroll professionals who are competent and willing to become independent directors of companies and for the companies to search for them; **msmentor.in** - an online platform for helping MSMEs in finding professionals who can add value to their enterprises; **bsepsu.com** - a database focussed on divestments in India; and **Investors Website** services to listed and unlisted companies in India.

The Group also provides a variety of other services including database creation and management, content generation, website development and management, information consulting, and data cleaning and standardization. By leveraging our deep understanding of information management, our clients are able to take better business decisions, improve their internal information processes and systems, and significantly enhance their public information platforms. For more information, please visit: [www.primedatabasegroup.com](http://www.primedatabasegroup.com).