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Synthesis

Best Practices of High-Performing Board

Lessons learned and the future of board governance

As part of the Directors Development Program, Namrita Jhangiani, Egon Zehnder hosted a fireside chat on the subject of "Best Practices of High-Performing Boards." The featured speaker was K V Kamath, chair of the National Bank for Financing Infrastructure and Development and former chair of ICICI Bank. Kamath walked the audience through his career, sharing lessons on board governance and overall best practices for the event.

Lessons learned from the 'stark reality of failure'

Kamath opened the discussion by touching on important moments in board governance from his early career. But the moment that stood out was not one of triumph, but of disaster: the 2008 global financial crisis.

"I call it the stark reality of failure," he said. "And the underlying thesis was greed."

Kamath detailed how, at the time, several parties and financial institutions were divvying up subprime mortgages to package and resell—while at each step of the way, regulators and ratings agencies looked the other way at the problems arising.

He said that these failures taught him an important lesson about not falling prey to the forces that swept up so many in greed and paved the way for the ensuring global recession.

“This is where the role of board comes in, because ultimately the board is where the checks and balances are laid,” said Kamath. “Checks and balance are put into practice and you make sure that the checks and balances hold, particularly in times of challenge.”

Kamath expanded on the concept of the board being a company’s “check” by talking about overcoming an “owner mindset” in public companies—that is, when a company is publicly listed but the media and other sources still refer to a solitary “owner” of the firm.

“Even though this company is listed, you are putting ideas into the minds of these people by giving an idea this is a proprietary company and the owner is so and so,” he said. “When the company is public, to say that it is an owner owned or managed company I think is totally wrong.” That’s because such language can undercut the fiduciary responsibilities of the board, leading to poor accounting practices and “parallel books.”

But progress is being made on these fronts, Kamath explained, thanks to an expansion of the “knowledge base” that board directors can draw from. There is also more activism taking part on behalf of shareholders, who are now better able to raise red flags or issues with the board.

Disruptive technological challenges for banks

In speaking to an audience of bank board directors, Kamath brought up new challenges that are unique to the financial sphere. These include fintech and crypto startups, which are vying for competition with traditional financial institutions like banks.

Kamath connected these new businesses with the governance issues banks have been guided by for decades. “These businesses want to remain outside of any oversight mechanism, whether it is regulatory or otherwise,” he said. This stands in stark contrast to “regulated, well-governed” traditional financial sector.

In other words, the two industries are playing by different sets of rules. And according to Kamath, “We need to have a response at the board level, and the response I would think is: *We’re not going to fall in this trap and let them do what they want.*”

That means challenging the competitor’s technological supremacy, for one. But it also means staying the course with the sector’s tight regulations and oversight, so lax rules don’t create another financial crisis. “We have to be a bit careful that when we are looking at our boards, we take a path which is steady, which is consistent with the broad guardrails set by the government and the regulator,” said Kamath.

In this regard, Kamath underscored the difference between theory and practice. Boards can have all the rules they want, but if they are simply rubber-stamping policies without doing their due diligence, then they are not working for the good of the institution. “The point that that I’ve learned over my career is that you need to make those structures work in practice,” he said. “If we internalize that, we bring the best to the board and we will deliver what is expected of us.”

Comparing public sector banks to private sector banks

Taking a question from the audience, Kamath compared his experiences in private sector banks and public sector banks to explain if the former is truly nimbler and more efficient than the latter, as conventional wisdom would hold.

“I can say this openly: The quality of the public sector bank is on par or better than any private sector bank I dealt with,” he said. “The myth that you have got better people in the private sector is busted.” Kamath said the same of bank processes between the two, as well as their technologies.

“I think several public sector banks have demonstrated that their technology is as robust as the private sector,” he said, making the point that even if a private institution once set a benchmark for technological prowess, they would need to have kept up with each advancement over the years to stay in the same position—which many have not.

“People wise, technology wise, process wise—they are on par,” concluded Kamath.

Seeing things through to the end as a board director

To Kamath, longevity is essential for a board director. And that's not just because of the accumulation of institutional knowledge that comes with a long tenure as a board director.

"You need longevity because there are things that you may set in motion that need to be seen through," said Kamath. These could be ideas, new processes, or initiatives that require a board director's guidance over years to result in a successful outcome.

Such a long-term vision requires that a company be proactive in managing the growth of their talent, from recruitment to leadership preparation. Kamath said directors should ask themselves how they can best accelerate leaders through the organization and allow space for such visions to grow.

For more information, contact:

Rahul Rana
New Delhi
rahul.r.rana@egonzehnder.com

Namrita Jhangiani
Mumbai
namrita.jhangiani@egonzehnder.com

Vineet Hemrajani
Mumbai
vineet.hemrajani@egonzehnder.com

Darpan Kalra
New Delhi
darpan.kalra@egonzehnder.com

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