

The Great Board Refresh

As we approach the pivotal 10-year mark since the passing of The Companies Act in 2013, Boards are on the precipice of a significant transformation, or what we refer to as 'The Great Board Refresh'. Between the need to hire and integrate new directors by 2024, and the additional challenges posed by geopolitical uncertainty and advancements in disruptive technology, organizations are under pressure to bring their Boardrooms 'up to speed' in the coming months. However, this also presents Boards with a major opportunity to adopt a fresh perspective – to rethink and relook at who should be seated around the table.

Between May and August 2023, Egon Zehnder hosted roundtables in Delhi, Mumbai, and Bangalore, at which corporate governance luminaries gathered to discuss these very issues and to speak openly about their concerns and strategies heading into this inevitable period of transition. During discussions, it became clear that there is no 'one size fits all' approach and different strategies and factors are at play which differ from company to company, and Board to Board. Key takeaways from what we heard are:

Takeaway 1: From Event to Journey: How Boards in Transition are Navigating the Refresh

As the refresh nears, there is debate around what such a fundamental change might imply for how Boardrooms operate. As one director put it, “[Board members] are still in their comfort zone, working with people they know, and people who know the culture. It is going to be a big change.” The consensus in the room is that this topic is getting attention, with some having begun their respective succession planning processes.

However, there were varied views on *how* this is being debated and the course of action being taken (if any). Many companies follow a founder-led approach with the promoter or founder driving the process; while the Nomination and Remuneration Committee (NRC) may take an initial cut, it is often known networks that are tapped into for Board roles. On the other hand, some companies have engaged professional firms to drive the selection and appointment process to widen the pool and allow for novel perspectives to enrich the Boardroom dialogue.

Brought to light as well was how “*some companies still view this as an event rather than a journey,*” – hence the need to allocate additional time to talk about the *what* and *how* of succession. Another perspective was the necessity to apply a forward-looking lens to the refresh: with respect to the future, some are considering shorter terms and bringing in ‘new’ talent in advance to allow for staggered Board appointments and integration into the culture. This also avoids the rush experienced around the recruitment period, particularly when availability of suitable candidates is uncertain.

When it comes to ‘who’ is steering succession planning – the NRC’s role seems to vary. The key herein is a deliberate conversation within the NRC – and the Board – to discuss the role of the Board, type of director needed, level of engagement, current and desired Board culture – to ensure alignment around the hiring.

Takeaway 2: Shifting Tides: Winds of Change in the External Landscape and Boardrooms

Change is rarely easy yet inevitable, be it within the four walls of the Boardroom or outside of it. Looking beyond, several attendees pointed to a more specific theme around adapting to new and disruptive technologies, such as generative artificial intelligence. Understanding the importance of navigating disruption effectively and proactively addressing it, particularly in the aftermath of a global pandemic, is now

crucial. “In terms of what Boards are looking for,” said one attendee, *“I’m seeing that they’re increasingly interested in those who will either help them think about disruption, or else help them to think about how to avoid being disrupted.”*

Flipping the gaze inwards, members spoke of how their roles have undergone significant changes over the past decade. What was expected 10 years ago is no longer applicable today. Adaptability, staying updated and continuously learning is crucial to avoid becoming “obsolete,” for the individual and the collective. However, some expressed worry that despite Board members being increasingly progressive, it doesn’t always translate to real changes. *“The Board can ask the right questions,”* said one director, *“but unless they engage with management and focus on the right topics, nothing will really change.”*

There has also been a notable shift in the role of the Board as a whole. Earlier, their primary focus was protecting shareholder interests. Now, there is a growing awareness of broader responsibilities beyond that – ESG being an example. Compliance is always a significant focus area; now engaging on fundamental topics – purpose, people, culture, strategy - is critical. Some members even mentioned creating Advisory Committees, which help bring a differentiated, external perspective and specific subject matter expertise.

Takeaway 3: Curating the Perfect Boardroom Ensemble: Who Should Have a Seat at the Table?

Roundtable participants also discussed broader skills and attributes sought in new Board members. Attendees agreed that candidates today must be able to leverage their specialized knowledge and perspective in their company’s evolving context. For instance, one pointed out that being an ex-CFO or M&A specialist isn’t sufficient for someone being on the Audit Committee. Boards can always access capable financial consultants as needed. *“The question is how [Board members] apply that experience within the context of the business and future priorities; bring a forward-looking lens to bear... ask the right questions,”* they said. *“That makes a huge difference.”*

While the need to remain open-minded and diversify the pool was spoken of, the attendees circled back to the criticality of active engagement and true independence over any one area of expertise, citing attributes such as *“wisdom, judgment, perspective, and influencing skills”* as key characteristics of an effective Board member today. As one director put it, *“The question to ask is, can I learn from this person?”*

The importance of bringing a long-term strategic view was also highlighted when rethinking the Board's composition.

Beyond skills and attributes, career and life stage was another emerging theme during our discussions: it is about the maturity, wisdom, and perspective a Board member brings and this may be evident in a person earlier or later in their professional and life journey. Most concurred that Boards should seek those who possess openness and the ability to learn, are agile and open in their thinking, and have a sense of maturity coming from diverse experiences. One director said, *“I think if it's people who have sat at the leadership table and moved through industries, that richness of experience brings an accelerated maturity which is not necessarily age driven... it's about the diversity and complexity of your experience.”*

Takeaway 4: Key Ingredient for Success: Mastering the Art of Board Integration

“The Board should operate as a team” is a refrain we hear. For this to happen, the successful integration of a new Board member upon hiring is essential – not only within the confines of the Boardroom but also with the organizational fabric and culture. This process of integration needs to be purposefully and thoughtfully driven. It holds far-reaching implications for both the director's Board journey and their ability to effectively contribute and bring value to the roundtable.

On whom does the onus of integration lie? Some attendees believed that it's the Chairperson or even the Lead Director's responsibility to ensure a smooth integration of the new director. However, most agreed that the responsibility lies with all Board members to be open to 'a new voice in the room'. In this regard, time spent outside the Boardroom to build connectivity among Board members is important. It is also important to provide new hires with an introduction to the core business / key business metrics and drivers, and opportunities to engage purposefully with management.

Takeaway 5: Moving Forward: Gaze Into the Mirror, Contemplate and Propel

We found that the Board refresh presents itself as both an opportunity and a challenge, with multiple paths and perspectives. What also became apparent during

the roundtables was that this refresh is no longer solely a matter of compliance, but also one of long-term sustenance and survival.

A key element of moving forward is ‘holding the mirror’ and getting feedback on what the Board (and individual members) can do differently. Board evaluations are not just a ‘nice to do’ anymore but a ‘must do’. The Securities and Exchange Board of India (SEBI) has published a guidance note covering major aspects of the Board evaluation process. At Egon Zehnder, when we think of ‘*what makes a great Board*’, it is a combination of both processes and behaviours. From dynamics to composition to performance orientation of the Board –Board members should use this as a time to step back and reflect on the ‘who’, ‘what’ and ‘how’ of the Board.

If viewed as an event, Boards are going to be caught off guard by the ‘Great Board Refresh’ and left with a scramble for talent to meet statutory requirements. Purposefully thinking about and consciously acting upon the Board refresh is the first step of this voyage with the ultimate aim to elevate the impact of the Board.

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