The Role of the Board in Crisis

As the global economic landscape becomes increasingly complex, and the importance of public perception and consumer trust to the performance and survival of financial institutions continues to grow, the ability to effectively manage and mitigate crisis scenarios has arguably never been more important. With corporate boardrooms across the financial sector undergoing their own evolution, it is crucial that the next generation of board members has a clear understanding of their unique role in a time of crisis.

Egon Zehnder' Directors Development Program held a session on this topic led by **Sunil Mehta**, former Chair of PNB and Yes Bank, in which he shared his insights, knowledge, and experience navigating various crises at the highest level of corporate governance.

Conducting an Orchestra

Before speaking about the responsibilities of the board more generally, Mehta shared his thoughts on the importance of strong leadership and helped define the specific role of the chair when it comes to crisis management. According to Mehta, even before any potential crisis emerges, the chair's most important role is to ensure there is good chemistry between all board members and to establish an environment of seamless collaboration. Of course, this doesn't mean all board members need to share the same views on all issues, but rather that the independent voices and perspectives of all members should be given equal importance, allowing the entire board to work harmoniously through any number of complex and challenging situations.

"In a crisis, you have to remember that you're not the sole person making the decision," said Mehta. "It's actually and necessarily a collective decision, so you need that chemistry on the board to ensure you're eliciting honest views that allow you to build a consensus and move forward."

Secondly, he spoke to the multi-faceted nature of most crises, highlighting the need for the chair to confidently delegate as much as possible to the board's subcommittees. If you're dealing with a credit crisis, for example, this could quickly spiral into a reputational and/or liquidity crisis.

> **In other words, all facets of the organization are interconnected, and navigating a crisis requires full participation and collaboration from all members of the board and subcommittees, as well as management leaders.**

Ultimately, Mehta likened the role of the chair in a crisis to that of a conductor in an orchestra. "In an orchestra, in a symphony, everything has to work in tandem, and the conductor's job is to make sure that everybody is playing the way it needs to be played, just as the chair's job is to get the best performance out of each board member and leader across the organization."

The Importance of Being Proactive

In Mehta's view, the first and most important role of the board in crisis is to be extremely proactive in its attitude toward crisis management. After all, in virtually all cases board members have been specifically appointed based on their years of experience dealing with diverse situations, and with that comes the expectation that the board is collectively doing all it can to prepare for both known and unknown risks.

At the most basic level for financial institutions, this means maintaining comprehensive oversight of and communication with the risk management committee to ensure they have identified the full spectrum of risks across all potentially vulnerable areas of the organization, whether it's an enterprise risk, within the portfolio, or elsewhere. Importantly, however, Mehta notes how potential risks are now compounding alongside the complexity of modern financial institutions, and boards must therefore view risk management through a much wider perspective.

"You have issues related to cyber security to grapple with today, issues of liquidity across the entire organization, and so on," he said. "All of these different elements converge at the board, and this convergence means it's absolutely important that the board is consciously looking at each element as if it could potentially lead to a crisis."

In fact, Mehta has direct experience being brought on to deal with crises that could potentially have been avoided through more proactive engagement and an organizational structure around risk management. And in relation to each of these cases, he described a situation in which the board needed to mobilize quickly to address the issue, fully embracing both its professional and ethical responsibility to the organization as well as its employees and shareholders.

"This is where the role of the board comes in, in the more immediate face of crisis," he said. "You need to make tough calls collectively, and you need to do that in the spirit of discharging your fiduciary responsibility as you deem fit to create the best outcome for the institution."

> Critically, however, one particular theme seemed to emerge throughout the discussion regarding Mehta's success in overcoming crisis scenarios on the board. That is, the crucial need for transparency and communication at all stages.

Transparency and Communication are Key

When a large financial institution experiences a crisis of any kind, the consequences can be devastating, not just for the performance and reputation of the organization itself, but for the hundreds and even thousands of employees and shareholders who have to shoulder the negative impacts. And as Mehta pointed out, when you're at the highest level of corporate governance, you have a unique responsibility to be open and transparent with everyone who may be potentially impacted by the crisis.

Recalling one particularly challenging and consequential situation during his time as chair for a national bank, Mehta underscored the importance of communicating openly with all affected parties, the majority of whom had no part in causing the crisis, but who nonetheless stood to suffer financial and reputational damages.

"We had 99.99% of employees who had stood up to fight for this, and just imagine what they had gone through for you," he said. "So I think you've got to be honest and transparent about whatever has happened. You've got to accept it and move forward. This is why effective communication is so important, both with all stakeholders including employees and shareholders, as well as regulators overseeing the issue."

Mehta stressed this point more than once, noting that while direct communication with stakeholders and team members typically falls on CEOs and management leaders, it is still the role of the board to support management and ultimately direct them toward a culture of transparency. Moreover, having seen first-hand the impacts of hidden operational deficiencies building up over the years, he urged those in management to remember that the board is on their side, and to always be forthcoming with information that may be indicative of a potential crisis.

> "Overall, I think as boards we need to institutionalize a much more transparent process. Never keep things under the carpet. The management's responsibility is to share everything with the board, and I want to make it clear that whether you're a CEO, executive director, or anyone in leadership if you're hiding deficiencies in the system or not transparently sharing all relevant information, rest assured it will catch up to you someday."
>
> he said.

Don’t Waste a Crisis

At the end of the day, while some form of crisis may be all but inevitable for financial institutions, particularly in light of today’s increasingly complex and unpredictable economic and social climate, corporate boards who take the time to understand their unique role in managing such situations will be in a much better position to do so as calmly and effectively as possible. And through an emphasis on focused leadership, organized proactivity, and a culture of transparency and communication, Mehta reminds us that boards have the opportunity to navigate crisis in a way that not only minimizes negative impacts but allows their institutions to emerge stronger than ever before.

For more information, contact:

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

Darpan Kalra
New Delhi
darpan.kalra@egonzehnder.com

Namrita Jhangiani
Mumbai
namrita.jhangiani@egonzehnder.com

Vineet Hemrajani
Mumbai
vineet.hemrajani@egonzehnder.com

About Egon Zehnder

Egon Zehnder is the world's preeminent leadership advisory firm, inspiring leaders to navigate complex questions with human answers. We help organizations get to the heart of their leadership challenges and offer honest feedback and insights to help leaders realize their true being and purpose.

We are built on a foundation that supports partnership in the truest sense of the word and aligns our interests with the interests of our clients. Our 560 consultants across 63 offices and 36 countries are former industry and functional leaders who collaborate seamlessly across geographies, industries and functions to deliver the full power of the Firm to every client, every time.

We partner closely with public and private corporations, family-owned enterprises, and non-profit and government agencies to provide a comprehensive range of integrated services, including executive search, leadership solutions, CEO search and succession, board advisory and diversity, equity & inclusion. Our leadership solutions cover individual, team and organizational effectiveness, development and cultural transformation. We work with world-class partners including Mobius Executive Leadership, a transformational leadership development firm.

We believe that together we can transform people, organizations and the world through leadership.

For more information, visit www.egonzehnder.com and follow us on LinkedIn and Twitter.