

India Board Report 2023-24



Foreword

Borrowing from the famous quote “There are decades when nothing happens; and there are weeks when decades happen” – the intervening years since publication of last India Board Report in 2018-19 have seen momentous developments across the world which have, in many ways, shaken established consensus and groupthink on almost every single aspect of corporate life including corporate governance.

Indian boards have had to deal with a diverse array of unprecedented external circumstances in the last few years - COVID-19 pandemic (and its offshoots including supply chain disruptions and the evolving definition of work); climate change and disruptions arising from the same; war/territorial aggression and related disruptions and economic slowdown/recession in several parts of the world. These are juxtaposed with increasingly stringent regulatory framework, evolving societal expectations from companies, the growing importance of ESG in business and boardrooms and adverse geopolitical developments that are upending and forcing changes to long-established business models. In the midst of these matters, India has, due to a confluence of factors, emerged as an unquestioned bright spot, offering potential for being a sustainable, long-term growth engine.

The devastating impact of the COVID-19 pandemic is still being felt at all levels, from boardrooms to storerooms. Boards evolved to work and function online in a matter of days and weeks, and online meetings are now the norm. The pandemic and related lessons in crisis management have helped make boards more resilient and nimble in reacting to unexpected disruptions – and boards are learning from these to focus on the next set of possible supply chain and other disruptions arising from other external risks as they arise.

The conversation on ESG in boardrooms has moved from it being a voluntary, desirable action to being a legal obligation, and is gradually evolving (at least for the larger and better governed corporates) to being a way to do business. The disclosure push on ESG parameters for the larger listed companies in India has played a part, in addition to other factors like focus from investors/lenders/contractual counterparties and a new breed of (more) ESG-focused management being involved over the last few years.

As a responsible emerging global power, India is taking increased measures to promote transparency, trust, confidence and accountability in corporate India and Indian capital markets, and emphasize zero tolerance towards corporate malpractices and wrongdoings. On the one hand, it includes progressive measures like decriminalization of certain corporate laws, overhaul of the corporate social responsibility framework and detailed ESG-related disclosures.

On the other hand, it also requires compliance with a much more stringent framework governing related party transactions and substantially enhanced disclosure requirements on several matters (including actions initiated or taken by regulatory or judicial authorities, certain types of agreements and proactive clarifications being required for market rumors) with adherence to stringent timelines.

These new and unprecedented challenges have made the perennial questions facing Indian boards even more relevant – aspects like change in board composition and diversity (size of board, average age of boardroom, independent directors with relevant specialization etc.), separation of powers (splitting the roles of MD, CEO and Chairman), and appropriate remuneration for both executive and independent directors have been important aspects of board focus. The upcoming great reshuffle of Indian boards arising from mandatory rotation of independent directors is also a current area of board focus. The importance of corporate reputation, and the value of stakeholder trust in the corporate brand is fast becoming a key pillar of the governance premium that some organisations attract, and others aspire to.

India Board Report 2023-24 analyses these and other related aspects through responses to a tailored set of questions to luminaries of India Inc’s boardrooms, to set out a snapshot of how the best of India Inc is adopting to the evolving governance framework and progressing ahead with measured optimism.

Lastly, borrowing from another famous saying, company managements and boards do live in (very) interesting times – and we believe that, like in the past, resilience of governance processes and practices will continue to be tested, strengthen and evolve to benefit society as a whole.¹



Zia Mody
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¹ The authors were assisted by Abhay Raj Singh Bundela and Tanaya Doshi, Associates at AZB & Partners, in the writing of this section.

Foreword

The rising focus on environmental, social and governance (ESG) metrics echoes the technology boom of the early 2000s to most seasoned corporate professionals. Sustainability is no longer a compulsion, but an imperative. It is certainly about reporting but increasingly about value creation – or at the minimum, preventing value loss. Organisations are moving beyond adhering to sustainability metrics, to prioritising them and embedding them into their strategies – an essential growth engine vital for determining how companies create stakeholder value.

However, just like the Y2K bug, hidden disruptions await organisations navigating a dynamic landscape. The role and scope of Indian boards has broadened significantly with evolving regulations which attempt to drive greater transparency and oversight. Many other challenges, including the COVID-19 pandemic and global regulations around ESG, have only added to the scope and responsibilities of boards.

Independent directors are now expected to be discerning guardians of good corporate governance within legal boundaries, wielding objectivity and sharp insights to guide organisations through transitions. This calls for organisations to relook at the composition of their boards – i.e. to bring in diversity of thought and drive a stronger sense of trust and transparency. Therefore, there is an underlying expectation from boards to drive the organisational focus on ESG and effectively steer the ‘G’, for which certain key actions could be taken.

With any transition comes risks, and boards need to tailor risk management frameworks accordingly. Likewise, having a documented accountability framework in place reiterates roles and drives a stronger sense of responsibility. This, coupled with a cadence around monitoring performance, creates a mechanism to evaluate progress regularly and diligently against key performance indicators, and helps to identify gaps proactively. In addition to governance around internal operations, boards need to assess the entire supply chain as well – i.e. clearly set out compliance requirements with vendors and business partners and conduct periodic reviews to ensure there are no deviations. For responsible organisations, it is crucial that they drive sustainable outcomes, and they cannot do this by themselves – they will need the support of their entire ecosystem. This will make them trustworthy amongst their wider stakeholders and society at large, and independent directors will have a significant role to play in facilitating the same.



Sanjeev Krishan
Chairperson, PwC in India

Preface

I am delighted to present the seventh edition of the India Board Report, brought to you by Hunt Partners, AZB & Partners, and PwC India. First published in 2007, the India Board Report is the reference point for anyone interested in the evolution and development of corporate governance in India.

This edition of the India Board Report (IBR) is published at a pivotal moment: being the first edition after the covid-19 pandemic – and coming on the tenth anniversary of The Companies Act, 2013. As in previous editions, the data and commentary in the report is informed by a survey we conducted with non-executive independent directors (NEIDs) and with company secretaries. The survey was supplemented by extensive secondary research from diverse yet authoritative sources.

As you will read over the chapters that follow, we have unearthed several trends that are defining the governance discourse. These topics – that are seizing boards of directors today – are diverse and reflect the growing number of stakeholders and their increasing influence on every facet of the corporation.

In the vanguard of discernible trends is Environment, Social, and Governance – commonly referred to by the acronym 'ESG'. This is driven by society's expectations that boards will steer corporations towards sustainability, not just in their operations but across the entire value-chain. We expect the focus on ESG to leapfrog not least because of the introduction by the securities market regulator – SEBI – of the Business Reporting and Sustainability Reporting guidelines ('BRSR'). Boards of directors will be charged with ensuring the executive management have implemented best-in-class data gathering, analysis, and reporting mechanisms to comply with ESG guidelines.

We also see a heightened focus on Corporate Social Responsibility ('CSR'). Indeed, the CSR Amendment Rules, 2021 introduces specific requirements such as mandatory filing and conversely, penalties for non-compliance. In the realm of technology, boards of directors will need to upshift their own appreciation of cyber and digital to provide appropriate guidance to the executive management. This, in the light of actions by regulators to ensure corporations ringfence personal data from malicious actors.

To discern the 'state-of-the-board', this edition continues to measure the core metrics such as strength of boards; the frequency of meetings; chronological age of NEIDs; tenures – and the remuneration of NEIDs. Finally, boards of directors have a unique opportunity to embrace the today's challenges. For boards can diversify their own composition, triggered by the compulsory retirement of NEIDs who complete their statutorily-defined tenures. Whilst appointing new NEIDs, boards can appoint individuals who bring cognitive, professional, and geographic experiences to 'future-ready' the cohort.

My thanks to our knowledge partners – AZB & Partners and PwC India – for their unwavering support. To our governance experts and noteworthy NEIDs – for their views and comments. And to the respondents who invested their time to make this report meaningful. I hope you find this edition of the India Board Report thought-provoking and insightful and, as always, I welcome your comments.



Arjun Erry

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Executive Summary



In this edition of the India Board Report, we wanted to hear from market participants about the ‘how’, ‘what’, and ‘why’ of governance. *How* has governance evolved post the pandemic? *What* is driving this change? And *why* are the changes going to impact all stakeholders not least the board of directors and non-executive independent directors.

To aid in this discourse, we launched a custom survey targeted at non-executive independent directors and at company secretaries. Specifically, we wanted to learn about the multiple dimensions that impact the board and governance and the underlying statutory, regulatory, and market-driven forces shaping the discourse. A significant portion of our survey – and hence this report – dissects board composition. We look at composition across multiple overlapping dimensions such as: strength of the board; the proportion of independent directors; the gender diversity; the professional backgrounds of the NEIDs; chronological age of directors; tenures of directors and committee chairs; and remuneration.

We juxtaposed our survey findings with the updated regulation emanating from the securities markets regulator – The Securities and Exchange Board of India (SEBI). We have gleaned the important regulations from SEBI and have intertwined these into the various sections of the report.

Several noteworthy trends emerged through an analysis of the survey responses. First, the acceleration of the refresh of the directors on the board goaded by regulations on term limits. We also noted steps being taken by chairs of boards – and by the nomination committee of the board – to engender genuine diversity in the broadest possible terms.

Another trend was the upward veer in the proportion of women independent directors – and the proportion of foreign-national directors. Also observable, was the increased frequency of board meetings – and, related to this, the upward march of total remuneration for NEIDs. And not least was the downward curve in the chronological age of directors.

In closing, the India Board Report 2023-24 provides a deep narrative on the current forces shaping corporate governance – and looks ahead to the further likely changes. We trust you will find the report an insightful, informative, and interesting read.

The Doyens' Corner



Since 2007, Hunt Partners has been publishing a seminal report on the state of corporate governance in India entitled India Board Report. These reports provide up-to-date data and commentary on key corporate governance trends in India and are an essential item on my bookshelf.

The data and analysis within the report provide valuable information to board members (e.g., chairmen, nominated directors, independent directors) and to those that are key stakeholders (e.g., company secretaries, promoters and other shareholders).

The Companies Act (2013) introduced many reforms concerning board composition, enhanced disclosure norms and stronger shareholder rights. However, corporate governance issues persist including the management of conflict of interests (particularly related party transactions), board independence and inadequate enforcement. SEBI is continually updating the corporate governance standards and while progress has been made it is evident that the effectiveness of these reforms still varies amongst Indian companies.

The provision of this data provides a prerequisite of the powerful mantra “what gets measured gets managed” or as I prefer to say, “What gets measured has a possibility of getting improved.” The report includes details of board structure and composition, board tasks, director remuneration, director workloads, business environment trends etc which is very thought provoking and insightful. The insights provided in this document should provoke the identification of areas for improvement and in turn lead to setting new targets to achieve better results in terms of both board effectiveness and efficiency. It should also provide benchmarking data that can be used in board evaluation reviews that should be conducted on an annual basis within your company. All board members should be open minded about improvements that can be made to their board practices.

This document can also be used for international comparison purposes to ensure that your company’s governance practices align with best international practices.

I welcome the publication of this report and am confident that all individuals interested in corporate governance (but particularly board directors) will find the data contained in the report to be thought provoking and insightful.



Dr. Chris Pierce, Ph.D.

Former Director of Professional Standards and Professional Development at Institute of Directors UK. Director of the Centre for Director Education at Leeds Business School. Former Consultant to the World Bank. Master Faculty at I.F.C. Former Master Faculty at Director Development Programme (Hunt Partners).

Welcome to the Hunt Partners annual board survey 2023-24. This is a comprehensive analysis of key trends and indicators in board performance and practice.

You may wonder why it is important to measure and think about trends. While the basic ideals and structures of corporate governance change very slowly, the focus of directors must change more rapidly and frequently to accommodate trends in the marketplace, environment, and economy.

Boards of directors play a critical role in enhancing corporate performance and mitigating the risks inherent in directorial responsibilities. Several challenges confront them, each demanding a proactive approach for effective navigation.

One primary challenge involves the evolving focus on Environmental, Social, and Governance (ESG) factors. Regulatory scrutiny on ESG has intensified, obliging companies to substantiate their commitments beyond mere assertions to combat greenwashing. In India, regulations underpinning consumer protection laws and eco-labelling guidelines amplify the drive for genuine environmental stewardship.

Moreover, the social dimension of ESG, particularly fair treatment of workers and consumers, has gained significant traction. Indian directors face potential legal and reputational consequences for mistreating workers, necessitating a thorough understanding of associated legal implications.

Technology is another area demanding directors' attention. While technological advancements offer competitive advantages, boards need to understand global tech trends and manage their implementation wisely to sidestep operational pitfalls.

Tech-driven business models must grapple with ESG considerations, ethical practices, regulatory compliance, data security, and stakeholder engagement. A cautionary tale from the Board of Control for Cricket in India highlights the challenges of integrating tech innovations into traditional contexts, underscoring the importance of careful management.

Cybersecurity poses an escalating risk, with global regulations increasingly holding directors accountable for breaches due to negligence. Directors are liable for ensuring compliance with data protection laws, cybersecurity disclosures, and industry-specific mandates, among other aspects.

Supply chain disruptions, exacerbated by the COVID-19 pandemic, accentuate the importance of resilience strategies.

Boards globally acknowledge the complexity of modern supply chains, emphasizing flexibility, diversified sourcing, and technological interventions like IoT and AI to bolster resilience.

In India, industries face diverse challenges, from semiconductor shortages to weather-induced disruptions in agriculture. Strategies involve diversifying suppliers, optimizing logistics, and fortifying infrastructure to ensure business continuity.

Adaptive boards in India are meticulously analysing trends to navigate this dynamic landscape. A constant amidst these changes is the imperative for boards to evolve, adapt, and continuously educate themselves. The environment will invariably shift, demanding ongoing vigilance and adaptability from boards and directors alike.

This report details some of the recent changes in board practice and focus. I hope it will help you to face the challenges with continued success.

Good luck!



Ms. Julie Garland McLellan

Facilitator, Author, and Program Developer at Australian Institute of Company Directors (AICD). Independent Director, and Mentor to Boards and Directors. Faculty at Director Development Programme (Hunt Partners).

Welcome to this, 7th edition of the India Board Report. This report builds on prior editions and considers emerging trends, offering up-to-date guidance to boards and directors intent on governing effectively in today's turbulent environment.

This edition is timely, for the practice of corporate governance has garnered much attention recently; curiosity about boards growing each time news of a corporate failure or serious misstep becomes public. Yet while those with axes to grind will always be quick to jump on their hobbyhorses, the weight of evidence suggests most directors are diligent and well-intended in their contributions.

This year, the re-emergence of people from the depths of the covid malaise has seen conversations about sustainability, climatic change, ESG, stakeholder capitalism, cyber security and, very recently, artificial intelligence take centre stage. These topics are important, and boards cannot afford to ignore them, especially as India becomes ever more influential in the global economy. But boards should not be deferential to them either; approaches that work in advanced Western situations may need adjustment to suit the Indian context.

That board work is becoming more demanding is self-evident, not only because of dynamic markets, regulatory change, and rising stakeholder expectations, but also the unpredictable impacts of geo-political turbulence, economic headwinds, and technology. Regardless, the role of every board is to provide steerage and guidance, having carefully assessed and considered the wider context within which the company operates. While these principles of corporate governance are indeed universal, its practice is idiosyncratic—every board and every situation are, to some extent, unique.

If boards are to be effective in their work and have a positive influence on organisational performance, directors need to be alert, astute and actively engaged—more so because solutions to difficult problems are, typically, multi-faceted and tenuous. This edition offers practical guidance about emerging trends, and encouragement to directors as they monitor the wider market closely, check strategic priorities remain fit for purpose and operational plans are on track, and adjust where appropriate. I commend this report to you and encourage you to share insights with your colleagues and associates, for the betterment of governance in India, and beyond.

**Dr. Peter Crow**

Independent director and board chair. Advisor and educator with global experience. Specialist expertise in corporate governance, strategy and boardcraft. Faculty member at ISM University, Lithuania; Institute of Directors, Kenya; GovernanceNZ, Hunt Partners. Chartered Director.

Chapter 1: Global Trends in Corporate Governance



With the rapid transformation of businesses around the world, stakeholders – regulators, employees, civil society, lenders, and shareholders – are demanding greater transparency and accountability from corporations. A significant impact of these enhanced expectations from stakeholders will manifest in corporate governance practices – and hence devolve to the board of directors to influence.

In this chapter we summarize and comment on some of the decisive global corporate governance trends.

1.1. Director Rotation

Recent data shows that, while there was a surge in new director appointments for S&P 500 companies in 2022, the overall strength of the board has remained relatively unchanged over the past decade. This indicates the execution of a strategy to engage in 'board refresh', i.e., the rotation of directors. It is essential for the board chair to establish a culture of board refresh by communicating to directors that renominations aren't perfunctory. Setting these expectations can aid in developing a high-performing board.

A rigorous board evaluation process can be used to inform the board of the direction of refresh activities – such as the total strength of the board or the composition, as a few examples. In the long term, boards must adopt and enforce director rotation policies to increase diversity while also keeping board size manageable.

“For over 400 years the governance of corporations has subserved the interests of their shareholders, on the principle that they alone had the right to determine it because they contributed its capital. The same principle used to determine the right to sit in a nation's parliament (to determine its governance) – what in return will you give your Sovereign? Sanctity (Lords Spiritual), soldiers (Lords Temporal) and taxes (The Commons, generally landholders).

This principle was challenged in the French Revolution in 1780 and it transferred the right to determine a nation's governance from those who gave the King something in return, to everyone who was affected by how a nation was governed: universal adult franchise. Corporations and governments are only now (far too slowly) awakening to the same shift in the ground they have stood on – that managements and boards must balance the interests of all stakeholders; the provider of equity is no longer paramount. This is what underlies ESG and other similar ideas.”



Mr. Nawshir Mirza

Independent Director on the board of Thermax. Former Non-Exec Chairman of Foodworld and Health & Glow. Former Independent Director on the boards of Exide Industries, Mphasis, Tata Industries, and Tata Power.



1.2. ESG in Focus

According to Meridian Compensation Partner Report, in 2023, 73% of S&P 500 companies linked a portion of incentive compensation to the achievement of ESG metrics, up modestly from 68% in 2022. It's expected that this trend will continue as stakeholders prioritize ESG.

The board needs to carefully consider how they align their ESG goals with their incentive compensation plan. This includes:

- Establishing which specific ESG goals they will tie to compensation;
- Identifying the participants who will be eligible for these awards; and
- Determining what elements of compensation would be linked to ESG goals.

1.3. Privacy and Cyber

Between 2019 and 2021, mentions of the keywords “data privacy”, “data protection”, and “cybersecurity” trebled in the annual reports of S&P 500 companies. The prioritization of privacy and cybersecurity is influenced by the industry in which the corporation conducts its business: disclosures were higher in companies that operate in financial services, communication services, I.T., industrial, and healthcare industries.

When it comes to overseeing privacy and cybersecurity risks, boards play a crucial role. They must determine how to weave these risks cohesively so the directors can weigh in appropriately. To do so, boards would need to identify existing directors with cybersecurity expertise. If there are no such individuals on the board, an action plan must be developed for appointing them.

Interestingly, the U.S. Securities and Exchange Commission (SEC) has also shown its interest in cybersecurity by proposing disclosure rules. We can expect to see the final rules adopted by 2023/24.

1.4. Directors’ Duties

A recent survey by McKinsey & Company found that in corporations who were effective in responding to the COVID-19 pandemic, the directors spent significantly more time – on the board, in the committees and with the executive management. Boards in these corporations also increased interactions between the board and management.

As organizations continue to evolve, they are expected to navigate and manage the increased demands for greater transparency into their business practices and societal impacts. This requires the oversight role of directors to become more prominent in ensuring that these needs are met effectively. This increased oversight will drive the time commitment of NEIDs on the boards on which they are appointed.

Chapter 2: Governance Developments in India



Through our extensive interviews and survey, we have uncovered some key trends in corporate governance in India. These trends include the changes in overall composition of boards; increased diversity on boards – by gender and by nationality; the rapid adoption of ESG; new domains represented in the board; and the strength of boards of directors. These trends are discussed further in this chapter.

2.1. Board Composition

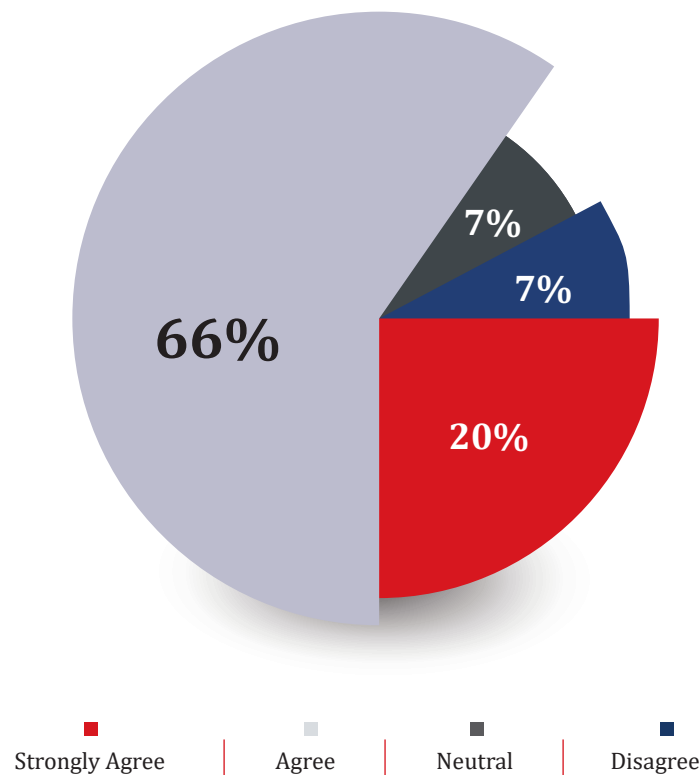
The composition of a board is significant in no small measure because the individuals who constitute the board must have the expertise, skills, and experiences to provide steerage and guidance to the executive management. The Board creates an organization's overarching strategic direction as well as its goal and policies.

Ideally, the Board of Directors should comprise individuals with a variety of experiences, credentials, and knowhow – and who represent a variety of professions, cultures, and demographics.

“The Companies Act requires every listed company to have at least one-third of the total number of Directors as Independent Directors (NEIDs). SEBI LODR Regulations (Listing Obligations and Disclosure Requirements) now impose stricter obligations: at least half of the total Directors of the Board of a listed entity need to be NEIDs if the Chairperson is an Executive, or related to the promoter; and in other cases, at least one-third of the Directors should be IDs.”

From our survey, we found a significant majority of NEIDs – 66% – agreed with the current composition of the board(s) to which they were appointed. (This is represented in chart no. 1.) This high level of agreement suggests that a substantial portion of NEIDs is generally satisfied with the composition of the Board.



Chart 1: NEIDs Views on Board Composition

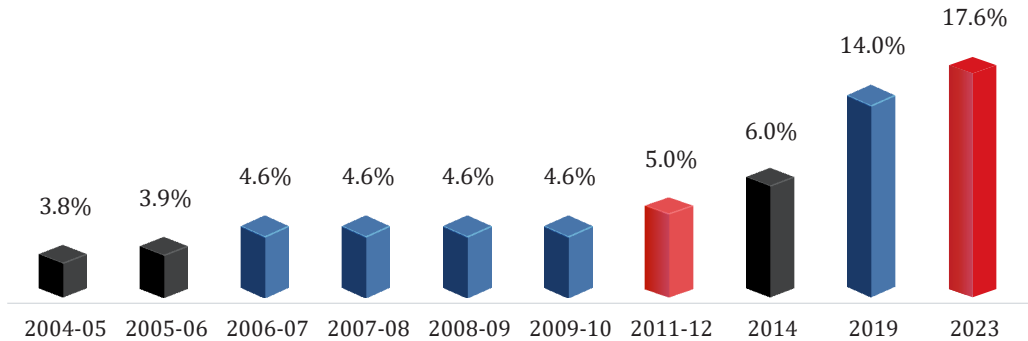
Further, our survey indicated that a fifth of respondents (20%), were in 'strong agreement' with the composition of the board. Notably only one in seven respondents (14%) were *not* aligned with the current composition of the board to which they were appointed. While the percentage is smaller, the presence of disagreement suggests that there may be concerns or issues within the board composition that warrant attention and further examination.

2.2. Gender Diversity

"The Companies Act and the rules prescribed within require at least one woman director on the Board of Directors of every listed entity. This is confirmed by the SEBI LODR Regulations, which also currently mandate that at least one woman director be appointed to the Board of Directors of a listed entity."

Gender diversity on boards has gained significant attention recently, in tandem with the focus on the representation of women in leadership positions. Reassuringly, India has made progress in the appointment of women to company boards: the proportion of women directors in the overall director cohort, rose from 6% in 2014 to 14% in 2019. In 2023, 17.6% of the directorships in the NIFTY-500 were held by women.

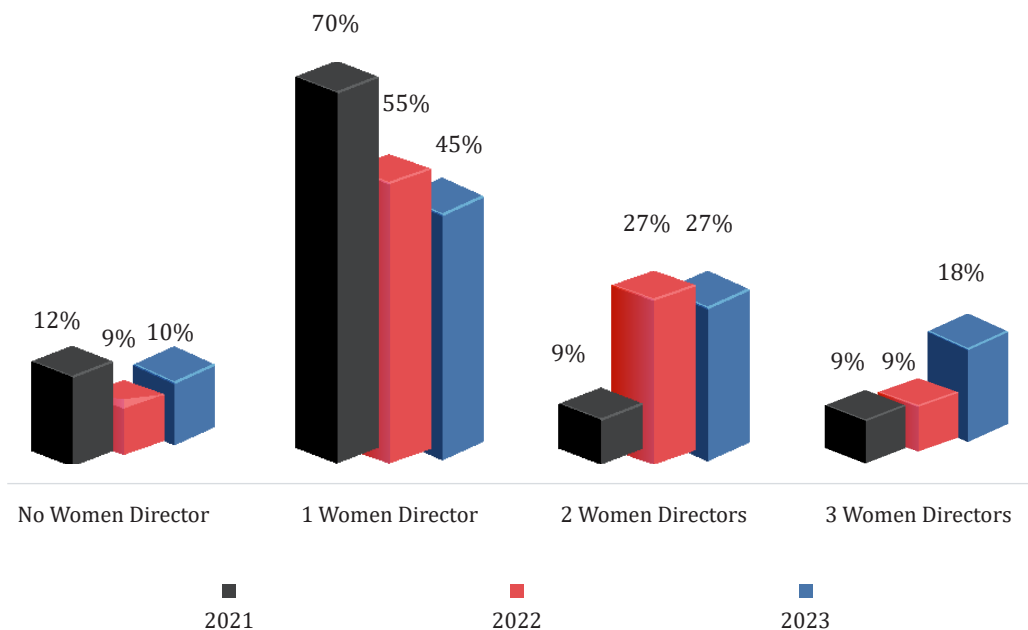
Notably, the number of women directors stayed almost flat – at ~5% – between 2006 to 2014. These data again point to the positive influence of regulations, because as chart no. 2 shows, the proportion of women directors leapt after the enactment of the Companies Act 2013 (with its proviso for appointing at least one women director).

Chart 2: Women Directors as a Proportion of Directors

Source: India Board Reports, Hunt Partners

But, we are also seeing a polarity in the number of women directors on a board. Tellingly from our 2023 survey, 55% of company boards had none or only one woman director;

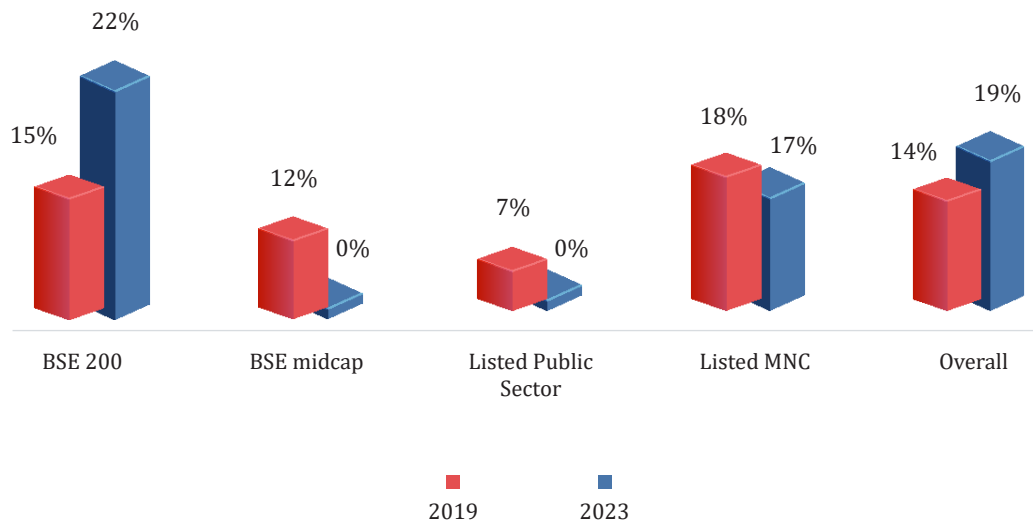
conversely, 45% had two or more women on their boards. This polarity is easily gleaned from chart no. 3.

Chart 3: Women Directors on Boards

Looking at the number of women directors within *company category* presented some remarkable insights. In 2023, BSE 200 companies had the highest gender diversity, with women comprising 22% of the boards respectively.

This is a notable change from 2019, where listed MNCs had the highest diversity, with women comprising 18% of their boards. The bar graphs in chart no. 4 provides these data.

Chart 4: Women Directors on Boards – by Company Category



“The unrelenting efforts of the regulators, most notably SEBI, have contributed to an enhanced focus on governance in Indian companies by all stakeholders. Yet, as some recent failures suggest, the need to remain more vigilant and to continually raise the bar, remain.”



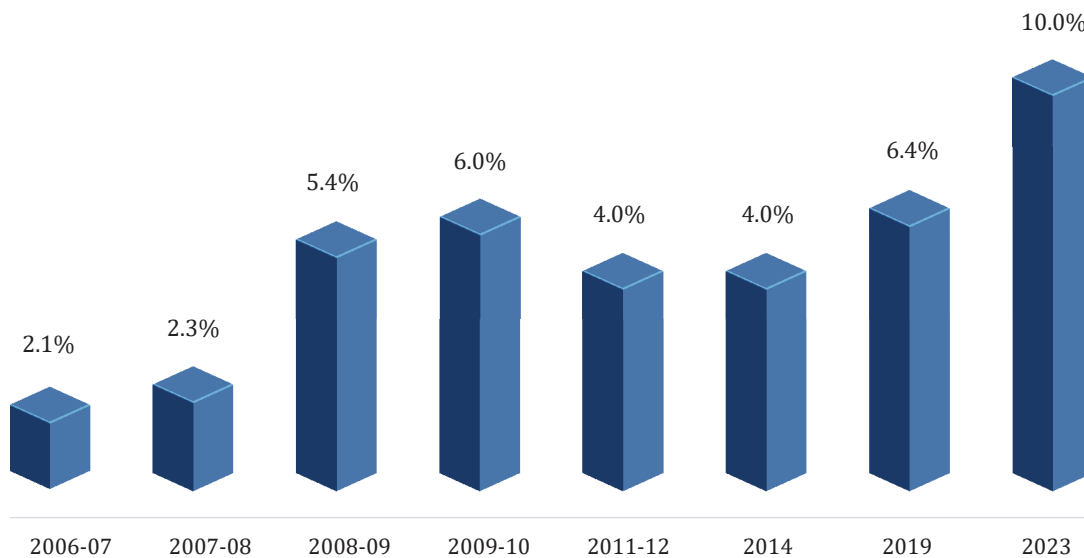
Mr. Bobby Parikh

Independent Director on the boards of Biocon, Biocon Biologics, Infosys, Indostar Capital, and K. Raheja Corp Investment Managers. Former Independent Director on the board of HDFC Bank. Co-founder of BMR Advisors. Former CEO of E&Y India and Country Managing Partner of Arthur Andersen.

2.3. Foreign-National Directors

Foreign nationals are permitted to serve as directors under Indian company law. Both public and private Indian companies may appoint a non-resident Indian or foreign-national as an executive (wholetime), as a non-executive *non*-independent director, or as a NEID. As per our survey, the overall percentage of foreign-national directors increased by 50% between 2019 to 2023 (from 6.4% to 10%). (See chart no. 5.)

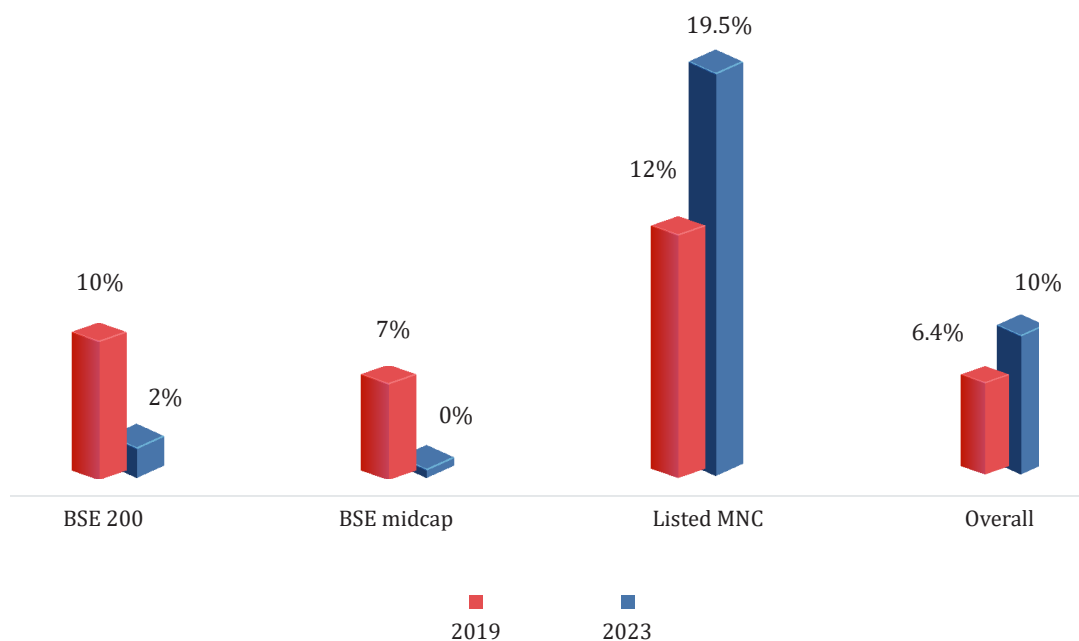


Chart 5: Foreign National Directors

Source: India Board Reports, Hunt Partners

Intuitively – and as chart no. 6 depicts – the highest representation of foreign nationals as directors were

on the boards of listed MNCs (19.5%), while the lowest representation was in BSE 200 companies.

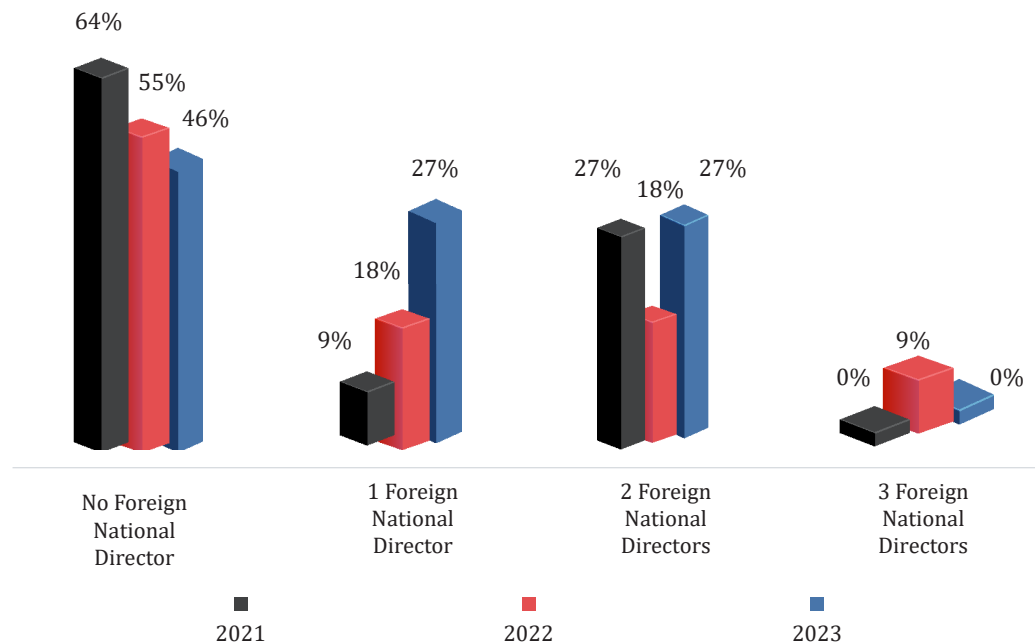
Chart 6: Foreign National Directors – by Company Category

Source: India Board Reports, Hunt Partners

However, geographic diversity is still nascent in corporate India. As chart no. 7 illustrates, almost half – i.e., 46% of companies did not have a foreign national appointed as a

director on their board. But more than half, i.e., 54% had at least one foreign national director.

Chart 7: Number of Foreign National Directors on Boards



“Corporate governance is improving in India. While compliance requirements brought focus on it, the improvements come from market power - the market rewards good governance.”



Mr. Pradip Shah

Non-Exec Chairman of Pfizer India, of BASF India, of Kansai Nerolac Paints and of Sonata Software. Independent Director of Bajaj Auto, Godrej & Boyce, KSB and Mane Kancor. Founder and Chairman of IndAsia Fund Advisors.



2.4. Cognitive Diversity

“The Companies Act and SEBI LODR Regulations require the disclosure of a brief profile of a Director upon their appointment, including the appointee’s expertise in specific functional areas (as mentioned in SEBI’s ‘Report of the Committee on Corporate Governance’).”

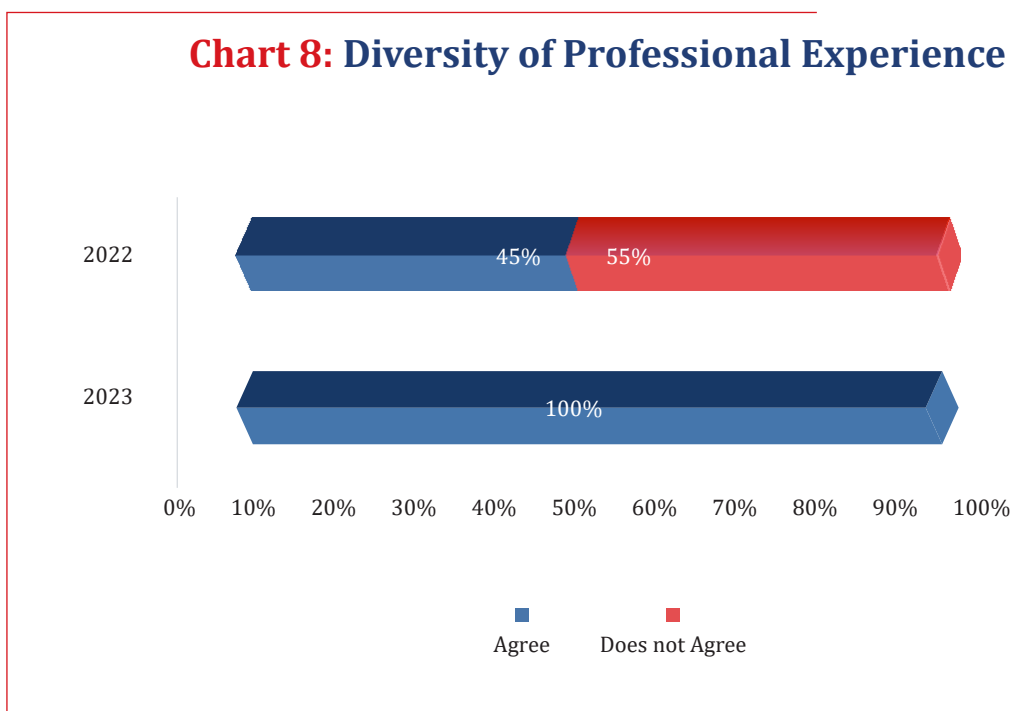
Diversity of the board refers to having board members with different backgrounds, perspectives, and experiences. A diverse board can bring many benefits to a company, including:

- Driving shareholder value and enhancing financial performance
- Promoting creativity and innovation
- Improving board performance
- Fostering a more inclusive company culture.

In our 2023 survey, 100% of respondents agreed that the boards had diversity in terms of professional experience and

subject matter expertise (see chart no. 8 below).

Chart 8: Diversity of Professional Experience



2.5. ESG Reporting

The Securities and Exchange Board of India has mandated ESG disclosures for the top 1,000 listed companies under the Business Responsibility and Sustainability Reporting initiative (BRSR), putting companies in high-emitting sectors, like industry and energy, under strict scrutiny.

“SEBI introduced the ‘BRSR Core’ for assurance by listed entities. The Board further decided to introduce disclosures and assurance for the value chain of listed entities, as per the BRSR Core. This framework includes specific key performance indicators (KPIs) for diverse E, S, and G factors that require assurance. For the supply chain, SEBI is proposing ESG disclosures based on the BRSR Core for the top 250 companies on a comply-or-explain basis from 2024, with assurance beginning the following year.”

The surge in ESG investing globally has led Indian businesses to rapidly integrate ESG considerations into their overall business strategy. As per a recent survey conducted by the RBI in 2022, small to medium-sized Indian banks are *not* yet equipped to incorporate ESG norms into their current lending models. The reasons for this include the lack of clarity surrounding the application of these regulations to lenders and the absence of technology and systems to track their implementation.

2.6. Separation of Posts

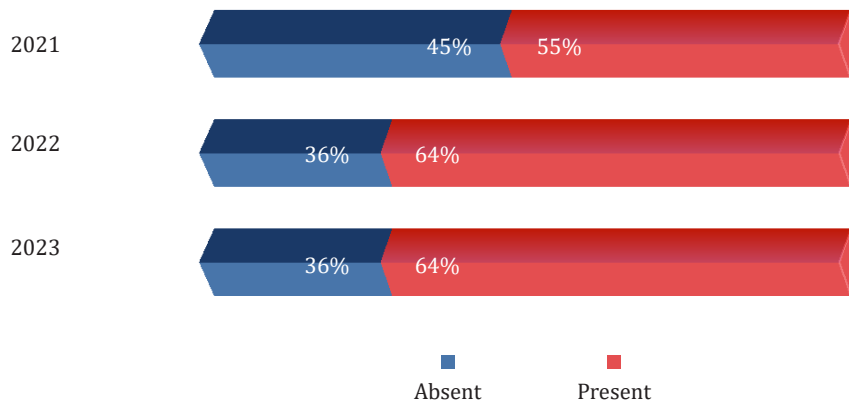
The MD serves as the company’s Chief Executive while the Chairperson chairs the board. Combining the post of Chair and that of the Managing Director goes against the fundamental tenet of corporate governance – which is: management, led by the MD, must answer to the board, led by the Chairperson.

“Previously, SEBI had mandated that the top-500 listed companies by market cap need to separate the posts of Chairperson and that of MD/CEO. This was to go into effect April 1, 2022. (When the regulations were first released, the effective date was April 1, 2020. However, considering industry representations, a grace period of two years was granted.) As of February 15, 2024, the regulation has been rescinded and made voluntary.”

Our 2023 survey indicates that two-thirds of corporations had a stated policy for the separation of posts of Chair and of

MD. This is an increase from the 55% who had such a policy in 2021. This is represented in chart no. 9 below.

Chart 9: Policy on Separation of Offices

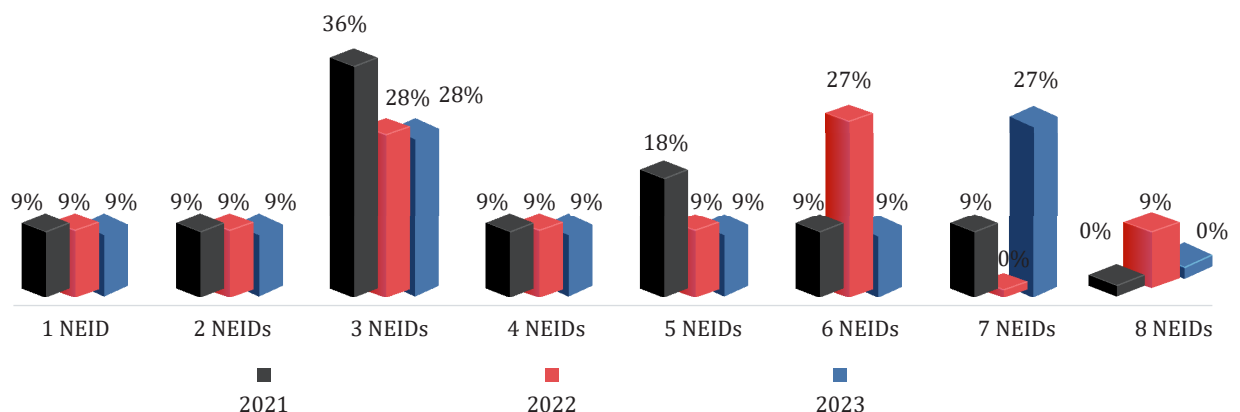


2.7. Board Strength

“As per Section 149 of the Companies Act, the board of public companies is to comprise a minimum 3 directors and a maximum 15 directors.”

As per our 2023 survey, the average numerical strength of the median board in India was 3 to 7 directors. We also noticed that more than a quarter of the respondents were appointed to boards that had seven or more NEIDs. And a further 27% of respondents were on boards that had between 4 to 6 NEIDs. Only 28% of respondents were on boards that had three NEIDs. Chart no. 10 captures these data.

Chart 10: Number of NEIDs on Boards



“Corporate governance in India is in a state of exciting flux. There is the impact of too many variables. Digitisation and its multihued absorption into the workplace and work processes, Cyber and its challenges, new technologies – blockchain, the metaverse, AI, 5g or is it 6g? and above all current board room action on possible future impact of climate change and sustainability. Concurrently or consequently, there is a huge mindset shift and changes in regulation and accountancy standards.

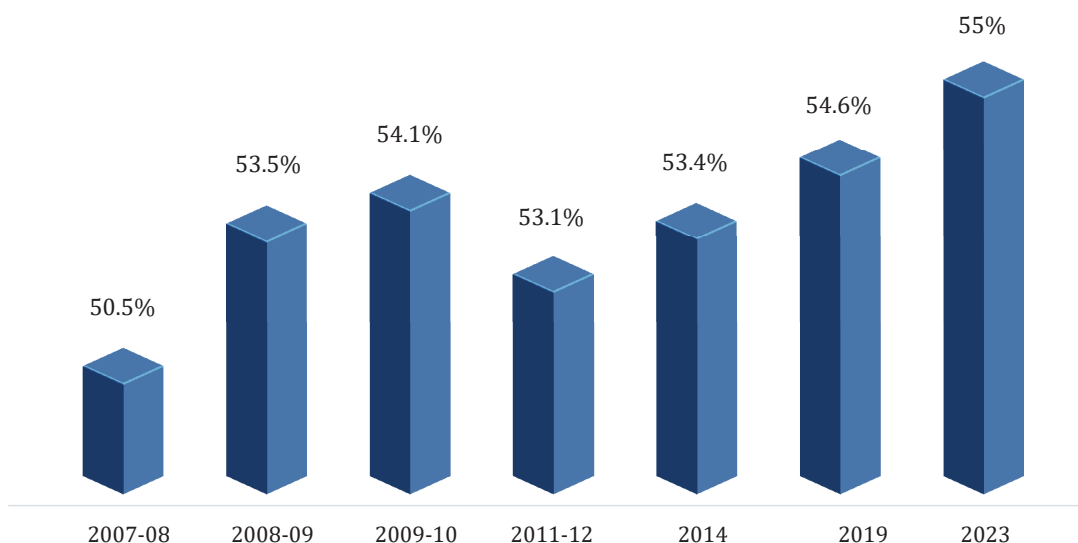
To top it, the economy is shifting gears. Indian corporates have never had such a plethora of challenges and incentives. Hence, resource raising and allocation, strategy and purpose, talent and technology, leadership, and agility – all are in great demand. So many options and possibilities. Corporate governance was never so challenging, interesting, or busy. This is the best of times.”

**Mr. O.P. Bhatt**

Former Chairman of State Bank of India.
Non-Exec Chairman of Greenko Energy.
Independent Director on the boards of TCS
and Hindustan Unilever. Former Non-Exec
Chairman of Tata Steel.

Interestingly, the proportion of NEIDs in the total director cohort has remained range bound over the past fifteen years. As chart no. 11 indicates, NEIDs have comprised between 50 to 55% of the total director cohort (from 2007 on). These data could indicate that whilst the absolute number of directors on boards has increased, the number of non-NEIDs – such as executive directors and non-exec non-independent directors – have also increased proportionally.

“SEBI has issued a notification stating that a minimum of six directors are to be appointed to Boards in the top 1,000 listed entities by market capitalization – by April 1, 2019. For the top 2,000 listed entities by market cap, the deadline was April 1, 2020. 65 companies among the NSE-1,000 will have to appoint more directors to comply with this regulation.”

**Chart 11: Proportion of NEIDs in the Board**

Source: India Board Reports, Hunt Partners

Chapter 3: Directors in India – Trend Lines



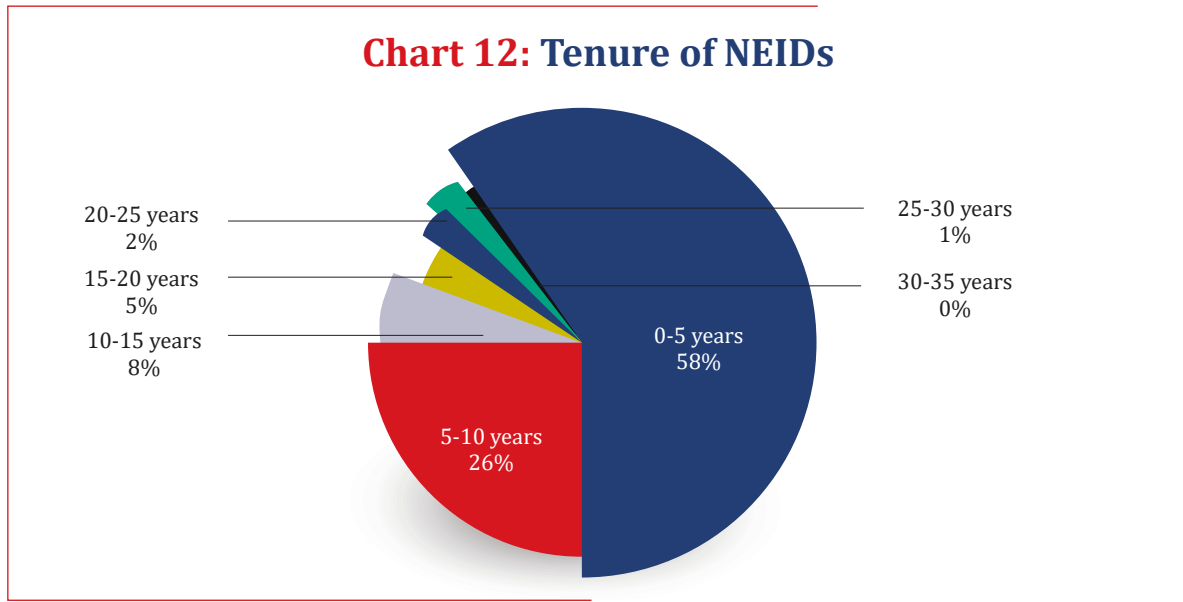
We now move on to exploring the evolution of NEIDs in the Indian setting, shedding light on their changing requirements, the services they provide, and the juncture where their role becomes critical in enhancing minority shareholders' interests. Particularly, this chapter magnifies dimensions that impact corporate governance, such as: tenures of NEIDs on boards; chronological age of NEIDs; professional streams in demand; and the key dimension of director remuneration.

3.1. Tenures of Directors

A NEID must have a reasonable tenure to contribute to the Board's performance.

The legal cap of two terms, each lasting no more than five years, is meant to address this need.

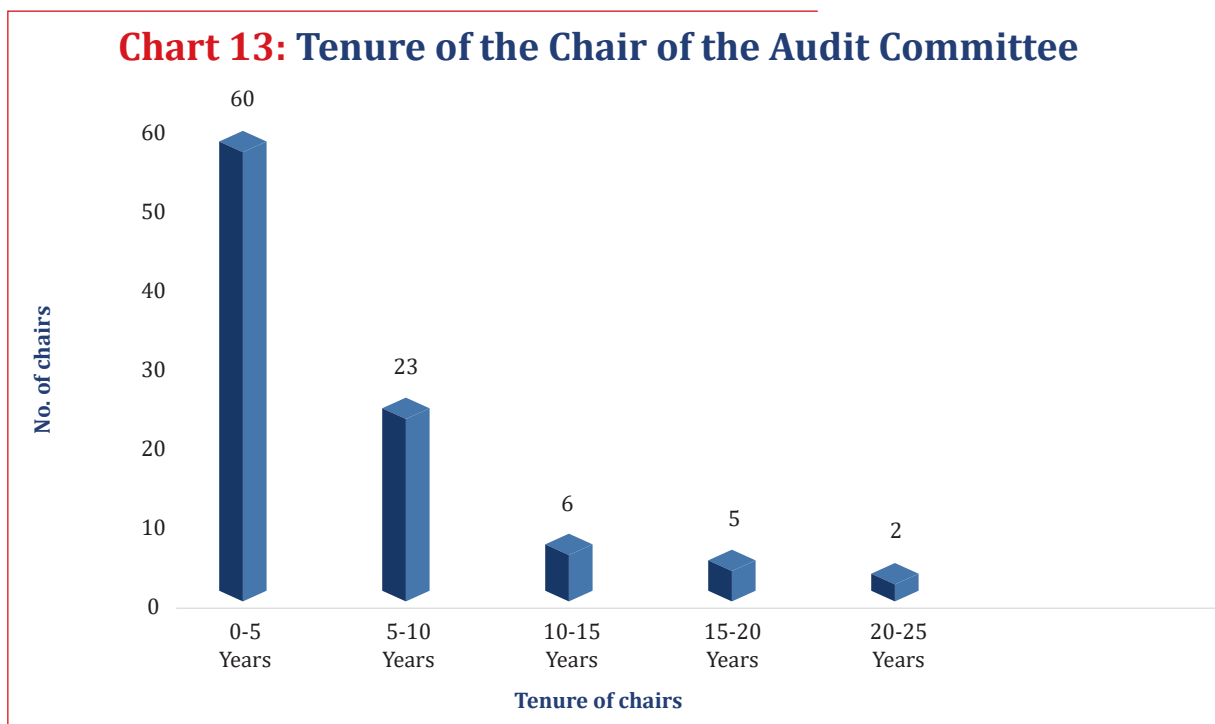
As depicted in chart no. 12, our 2023 survey indicates almost two-thirds (58%) had a tenure of 5 years or less. A full quarter of respondents had tenures in the range of 5 to 10 years, with a few exceeding ten years of tenure.



Just as for the board, tenures of committee chairpersons are a pivotal element in board performance. In these sub-sections, we track the tenures of chairs of the pivotal committees.

The data suggest nearly two-thirds (60%) of chairs of Audit

Committees had a tenure of less than 5 years; with a further quarter (23%) with a tenure of 5 to 10 years. The longest tenure of an audit committee chair was 23 years. (See chart no. 13 below.)

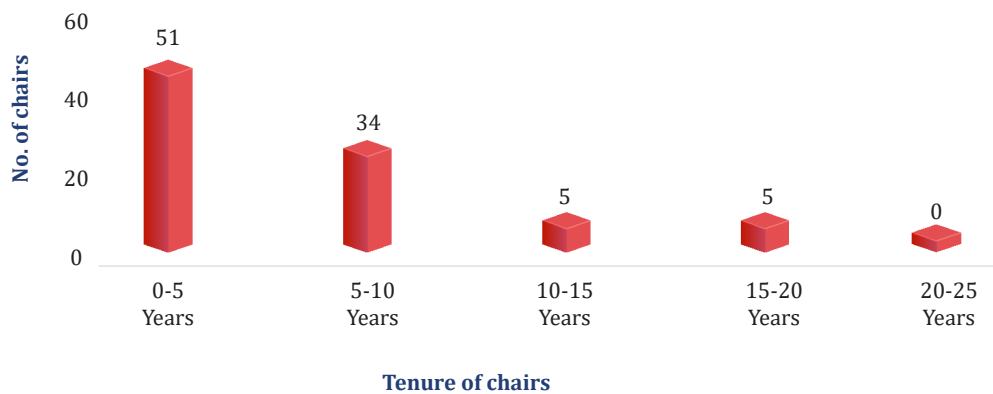


Source: Excellence Enablers survey 2021

The tenure for chairs of the Nomination and Remuneration Committee was similar in distribution to that of Audit Committee chairs. In half the boards surveyed, the chair of

the NRC had a tenure of less than 5 years, while another third (34%) the tenure was 5 to 10 years. This is detailed in chart no. 14 below.

Chart 14: Tenure of the Chair of the Nominations and Remuneration Committee

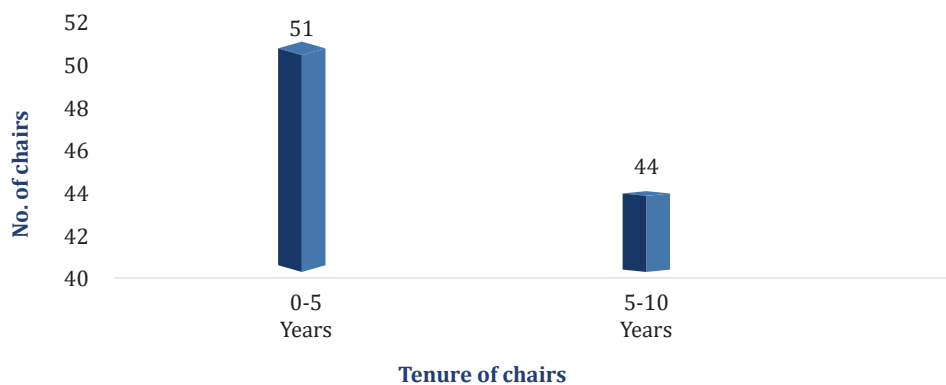


Source: Excellence Enablers survey 2021

Uniquely, the tenure distribution of chairs of the CSR committee was much narrower, with all respondents falling within one of two buckets, viz. less than 5 years, and between

5 to 10 years. This is informed by the fact the constitution of the CSR was initiated by the Cos. Act of 2013. Chart no. 15 illustrates this unique data trend.

Chart 15: Tenure of Chair of the CSR Committee



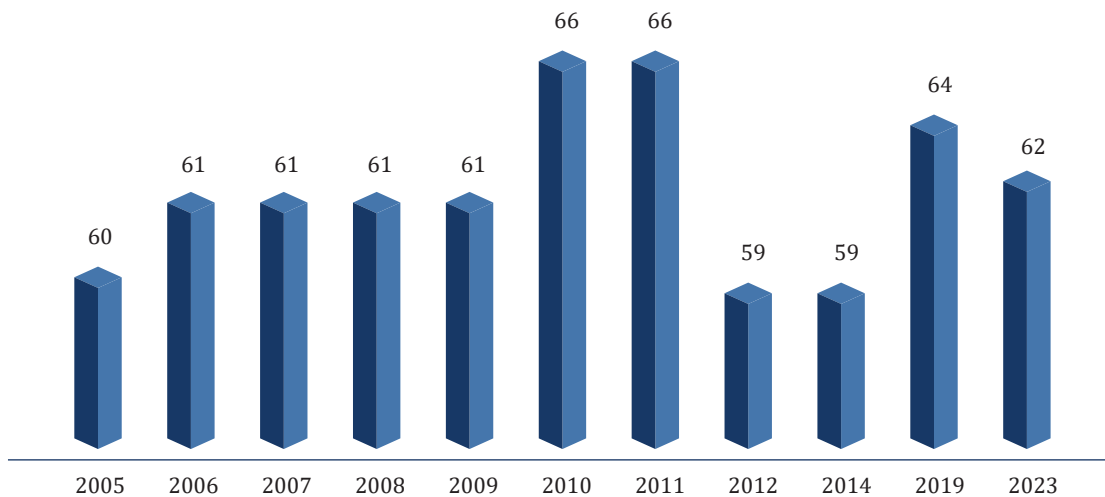
Source: Excellence Enablers survey 2021

3.2. Chronological Age of NEIDs

The India Board Report has been tracking age of directors on boards since the late 2000's. As chart no. 16 depicts, the

average age of NEIDs has been oscillating for fifteen years beginning in 2005. The average age of directors stayed flat around 61 years till 2009 but thereafter it increased to 66 years in 2011. It then dropped to 59 years till 2014 before settling in the 62-64 years range.

Chart 16: Average Age of NEIDs – Historic to Date

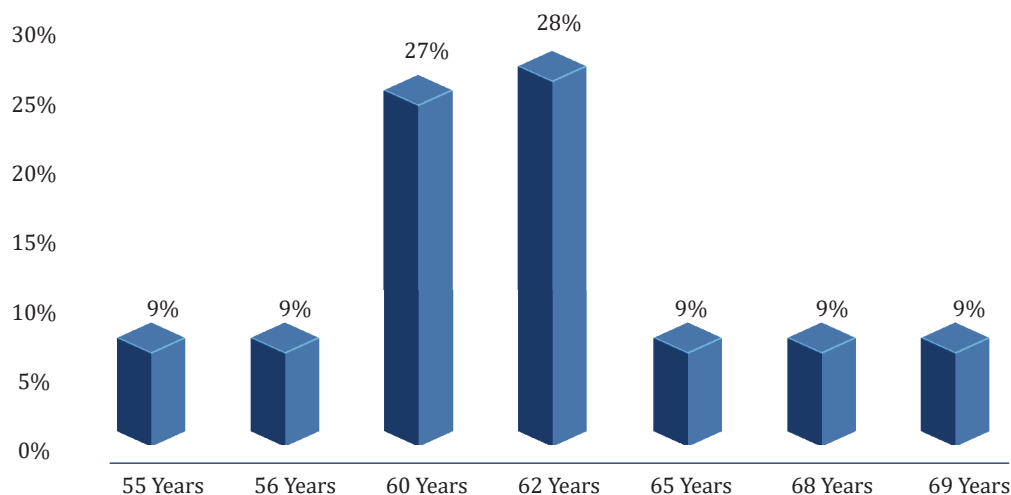


Source: India Board Reports, Hunt Partners

Going further, the age distribution of directors on boards provides insight into micro trend lines. As represented in chart no 17, amongst the respondents to our survey, over half

of NEIDs on the board were 60 to 62 years of age. But less than a fifth on the board, i.e., 18%, were aged 68 or above.

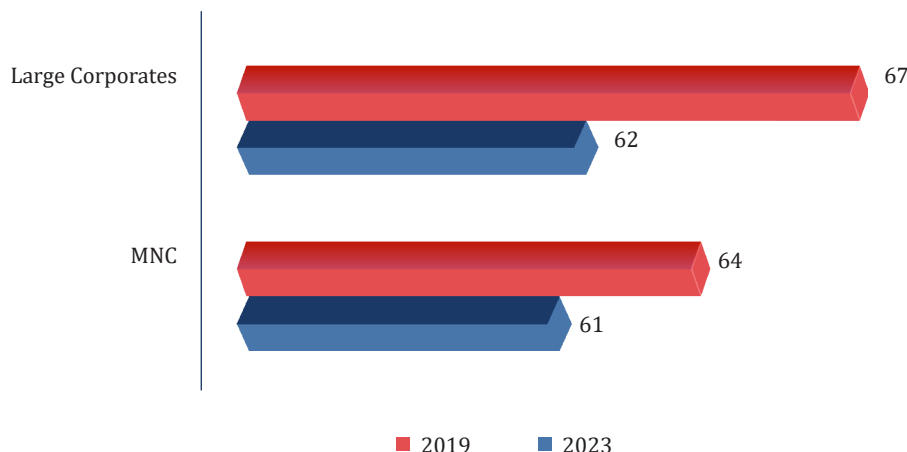
Chart 17: Agewise Distribution of NEIDs



A further nuance emerged when studying directors' ages within company categories. As per our 2023 survey, the average age of NEIDs across large corporates has dropped to

62 years in 2023 (compared to 67 years in 2019). The trend line was similar for MNCs: average age in 2023 dropped to 61 years, from 64 years in 2019. See chart no. 18 for the details.

Chart 18: Age of NEIDs by Company Category



“Indian corporates are successfully raising the governance bar. Be it professional management or promoter driven companies the talk in the Board Room is to ensure it percolates down all levels. It’s the prime duty of each board member, particularly the independent directors, to champion the cause and stand up and speak in case of violation of the spirit of corporate governance. In unlisted companies still lot to be done on this front but the good news is that they are aware and are willing but needs guidance and hand holding. Organization like Hunt Partners are doing a great job of bringing awareness, discussing case studies and training the directors which is building a strong eco system.”



Mr. Kewal Handa

Former Non-Exec Chairman of Union Bank; former Non-Exec Chairman of Clariant Chemicals. Independent Director on the boards of Akums Drugs, Borosil Renewables, Hubach Colorants, Klass Pack, Quality Care Hospitals, and Wellness Forever. Former Independent Director on the board of ING Vysya Bank and Vulcan Laval; former Managing Director of Pfizer India.

All these data in chapter points to an unmistakable trend: the average age of directors on boards is declining because companies desire to appoint directors with a runway to accommodate the maximum permissible two terms.

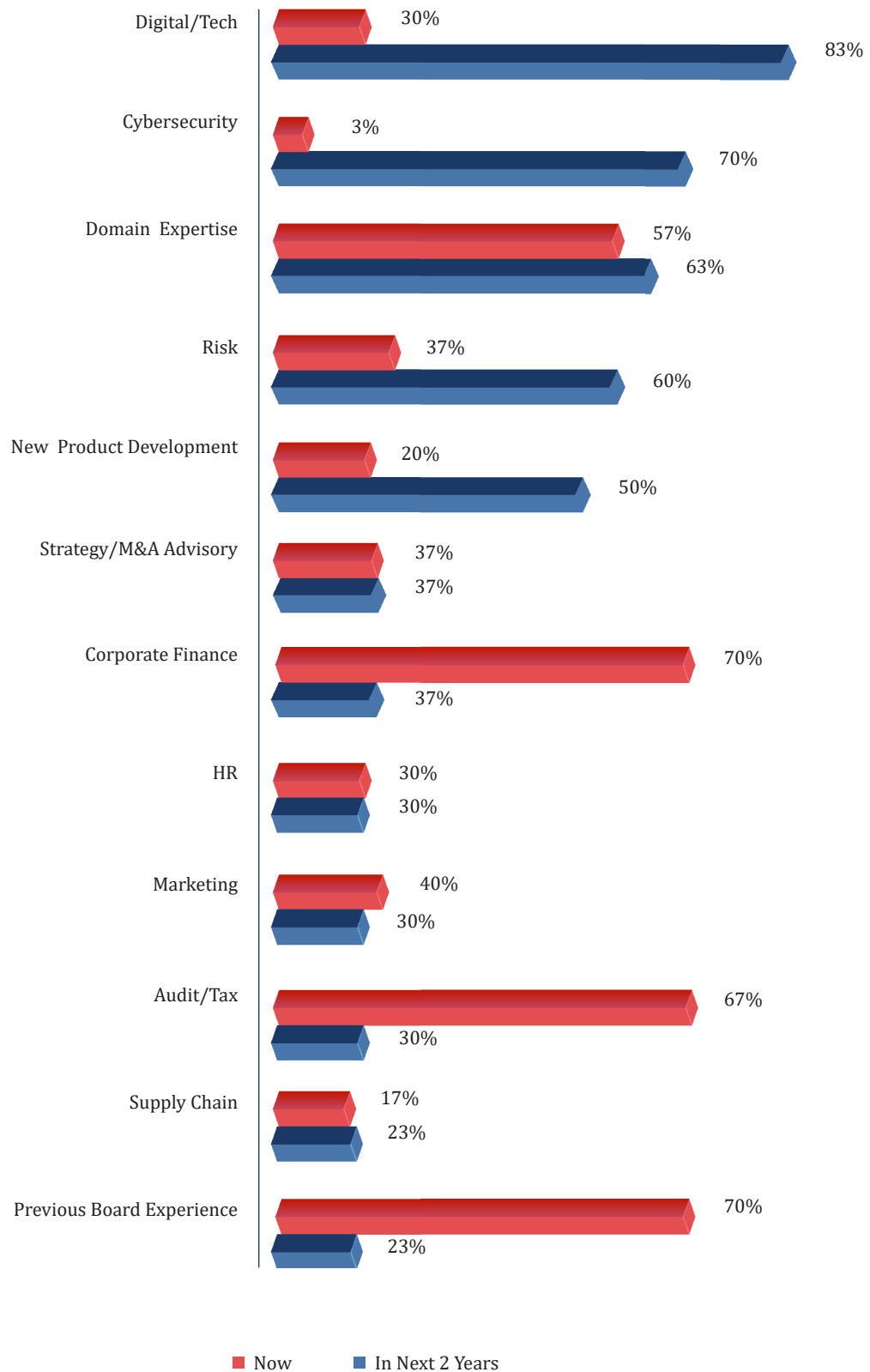
3.3. Domain Expertise

NEIDs who possess specialized knowledge allows them to contribute valuable insights, ask critical questions, and offer guidance on complex matters. Boards can ‘acquire’ specialized skills by appointing a NEID(s) with deep domain expertise.

Our survey of 2023 reveals that fields such as *digital*, *tech*, *cyber security*, and *risk* are likely to have higher representation on boards in next 2 years. As chart no. 19 illustrates, the expectation is that board representation from these above fields will grow immensely. Conversely, in fields such as M&A, corporate finance, and audit/tax, it is expected that additional representation would not be seen on boards.



Chart 19: Domain Expertise of NEIDs

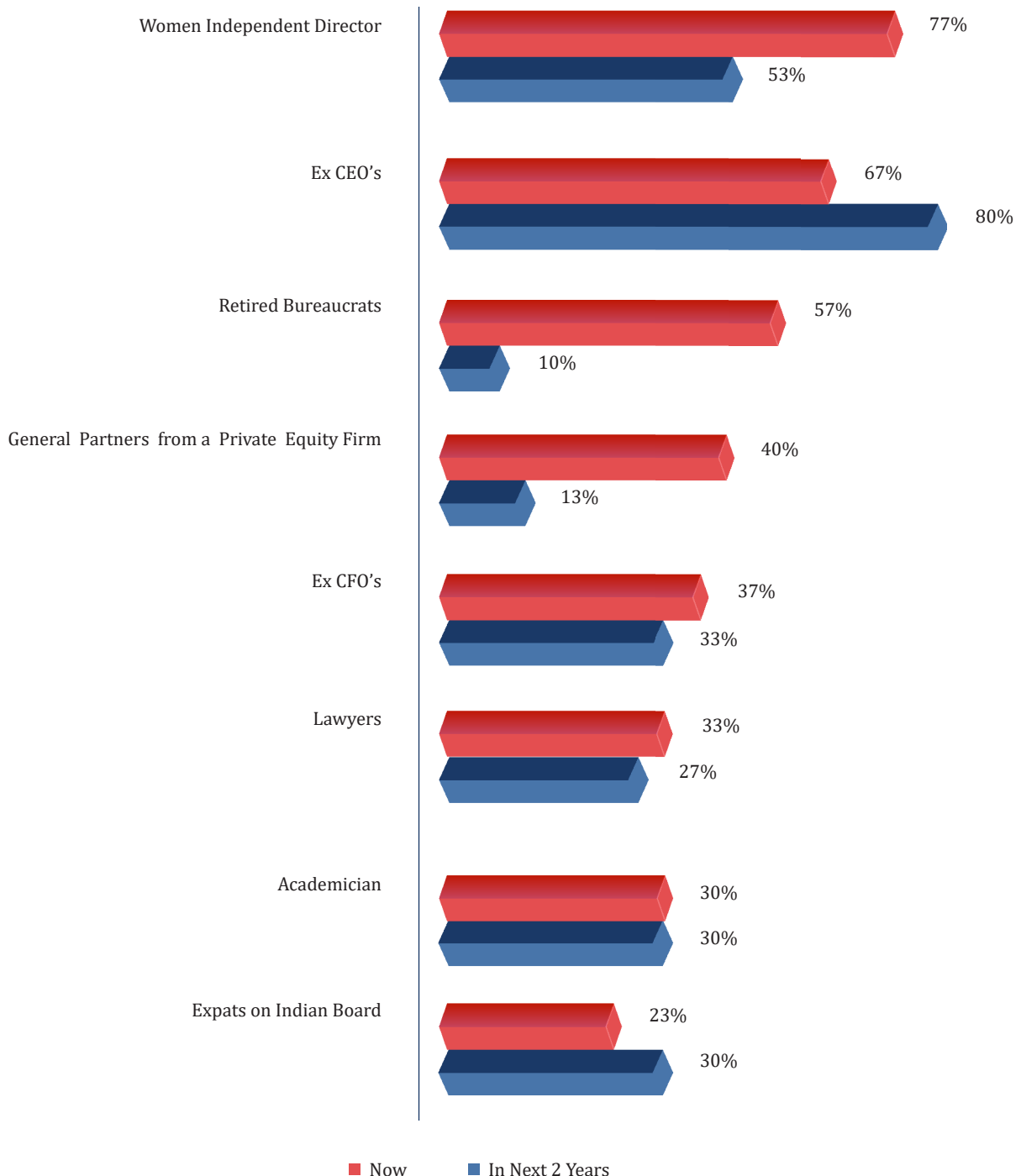


3.4. Professional Streams of NEIDs

To compliment the domain expertise of NEIDs, boards are carefully considering the professional streams in which

NEIDs have devoted most of their executive career. Our 2023 survey indicates, that going forward, that Boards will seek out prospective NEIDs who are former CEOs, academicians, women, and foreign-nationals. Chart no. 20 provides the forecast of demand of NEIDs, by professional stream.

Chart 20: Experience Acquired Through NEIDs



3.5. Remuneration

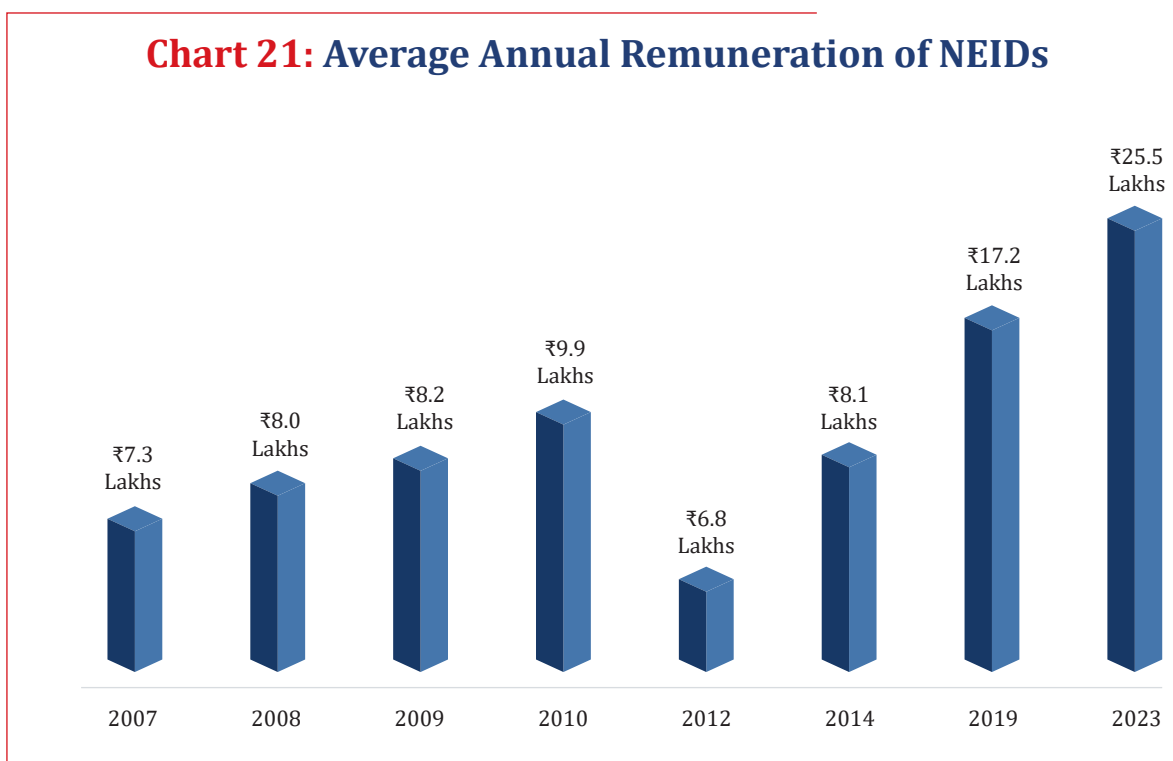
The remuneration data from the India Board Reports – represented in chart no. 21 – informs us that average annual remuneration of NEIDs increased from ₹730,000 (₹7.3L) in 2006-07 to almost quadruple that in 2022-23 (wherein the average touched ₹2.55mio [₹25.5L]). Notably, the average annual remuneration for NEIDs has trebled in the past 10 years, ever since the enactment of the new Companies Act 2013. (This is represented in chart no. 21 below.)

“The remuneration for directors is governed under Section 197 of Companies Act 2013. As per Section 197(1)(ii) of the Act, the remuneration payable to directors who are neither managing directors nor whole-time directors shall not exceed: (A) one percent of the net profits of the company, if there is a managing or whole-time director or manager; (B)

three percent of net profit in any other case. These aforesaid percentages shall not include the fee paid for attending the meetings of the Board and Committees of the Board. (SEBI regulations disallow grant of equity-based compensation to NEIDs¹.)”

“The Companies Act 2013 empowered Independent Directors, while increasing their accountability and transparency. According to the law, Independent Directors can be paid up to ₹100,000, as sitting fees, per Board or per Committee meeting. Companies have the flexibility to pay more as commission. The total commission paid to all Independent Directors in a company can go up to 1% of its profit.”

Chart 21: Average Annual Remuneration of NEIDs



Source: India Board Reports, Hunt Partners

¹ SEBI (Share Based Employee Benefits and Sweat Equity) Regulations, 2021

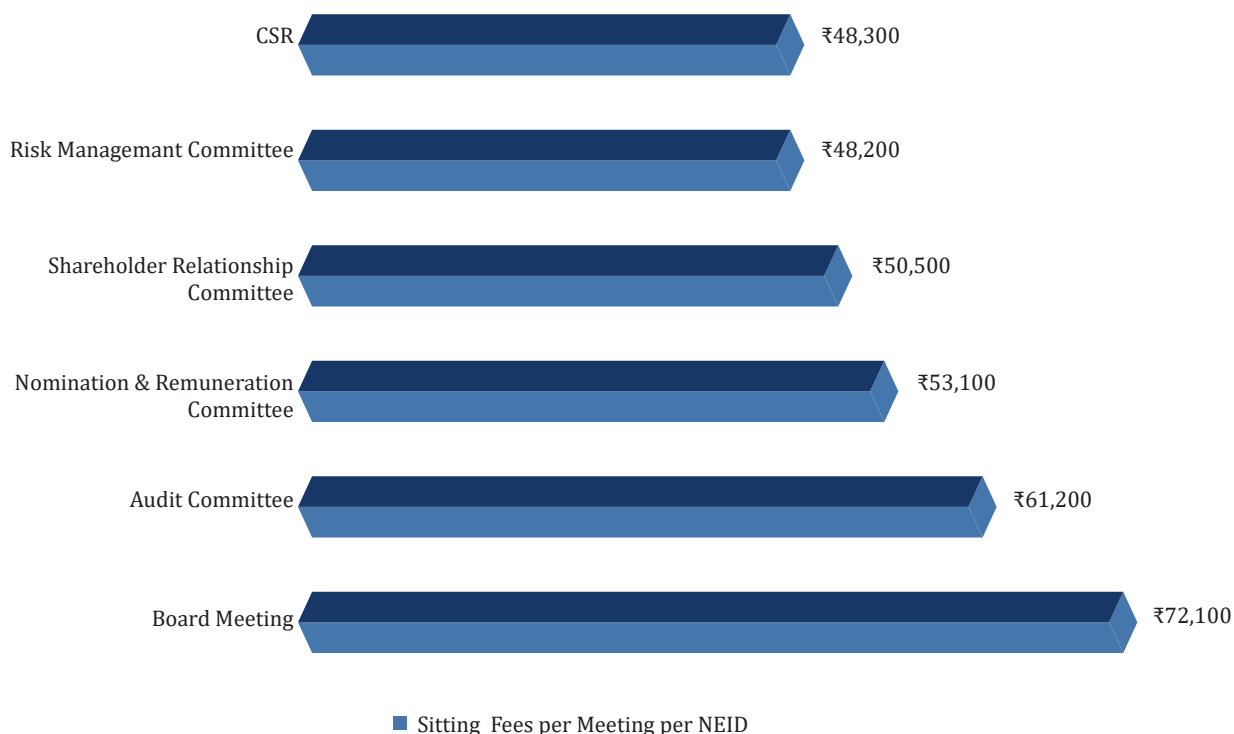
“According to ‘Rule 5 of The Companies Act (Appointment and Remuneration of Managerial Personnel) Rules, 2015’, read with ‘Rule 19(2) of The Companies (Disclosure of Remuneration and Appointment of Directors) Rules, 2014’, every listed company shall make the following disclosures in their Board’s report:

- Ratio of the remuneration of each Director to the median remuneration of the employees
- Percentage increase in the remuneration of each Director, Key Management Personnel (KMP), and the percentage increase in the median remuneration of employees
- Explanation of the relationship between average increase in remuneration and company performance
- Comparison of the remuneration of each KMP against performance of the company

- Variation in market cap or net worth of the company
- Justification for the increase in managerial remuneration, as compared to the increase in remuneration of other employees
- Key parameters for any variable remuneration of Directors
- Ratio of the remuneration of the highest paid Director to the remuneration of any other employee who is paid more than the highest-paid Director
- Affirmation that remuneration is as per the remuneration policy of the Company”

As per the Exec-Rem study conducted with 37 NIFTY-50 companies (excluding PSUs and BFSIs – where the remuneration is controlled by RBI and IRDAI) the sitting fees paid to NEIDs, per meeting, ranged from ₹48,000 to ₹72,000. The data is depicted from chart no. 22.

Chart 22: Sitting Fees across NIFTY-50 Companies



Chapter 4: Structural Shifts in Governance



A noteworthy narrative emerging from our survey is the structural shifts in governance. Maintaining the independence, integrity, and objectivity of NEIDs was a key point emerging. This was complemented by the enhanced scrutiny and expectation of the role of NRC in driving and rightsizing executive compensation. And finally, the importance of providing newly inducted NEIDs with a deep induction and orientation into the company was another shift that emerged.

“The job requires, as someone said and I borrow the phrase, “nose in and fingers out”. Boards of Directors are not Boards of Consultants or advisory boards. When individual board members spend time inside the business advising management, it makes the board less effective. Board members should not be on both sides of the table. If they are, board discussions could end up being more guarded, less frank; and board members more pigeonholed into their expertise areas instead of participating more broadly. That affects governance quality.”

**Ms. Rama Bijapurkar**

Independent Director on the boards of Apollo Hospitals, Ambit Holdings, Cummins India, M&M Financial Services, Sun Pharmaceuticals, and VST Industries. Former Independent Director on the boards of Axis Bank, BPCL, CRISIL, Infosys, and Nestle India.



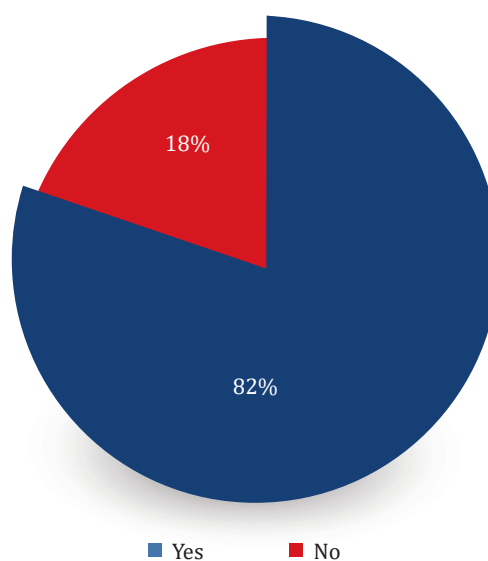
4.1. Induction of NEIDs

“According to the Regulation 25(7) of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, Independent Directors should undergo appropriate induction & training, and regularly (on an annual basis) update and refresh their skills, knowledge, and familiarity with the company, including the following:

- a) Nature of the industry in which the listed entity operates
- b) Business model of the listed entity
- c) Roles, rights, responsibilities of Independent Directors and
- d) Any other relevant information.”

At a time when NEIDs are being tasked with greater responsibilities, it is essential for newly appointed NEIDs quickly understand the value drivers of the corporation. Our 2023 survey indicates that 82% of companies have induction programs for NEIDs. This analysis is informed by the data in chart no. 23.

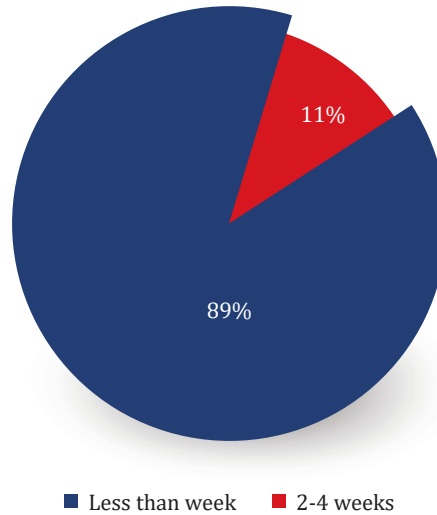
Chart 23: Induction Program for NEIDs



When we looked at the duration of these director induction programs, we found that fully 89% had an induction program

of 1 week. A tenth (11%) ran induction programs of 2 to 4 weeks in duration. This analysis is shown in chart no. 24.

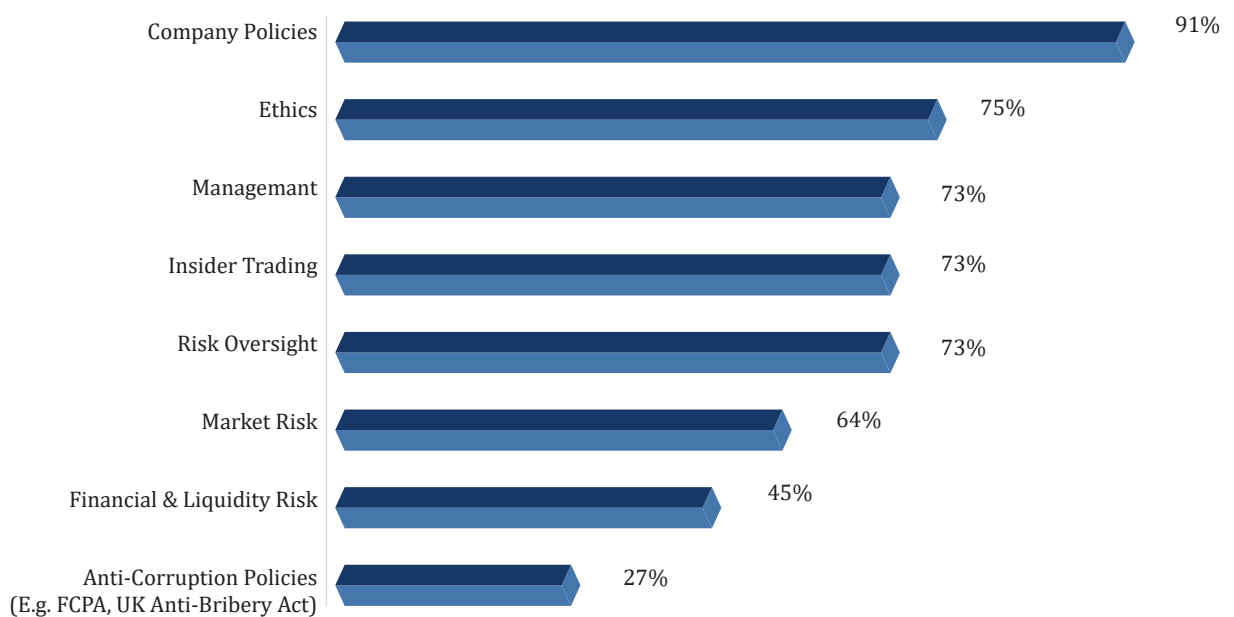
Chart 24: Duration of the Induction Program for New NEIDs



If we look at the topics covered by company induction programs for NEIDs, 'company policies' had the widest distribution, with nine of ten respondents including it in their program. This is illustrated in chart no. 25. Three-fourth of respondents said they had included each of the

following topics: 'ethics'; 'management introduction'; 'insider trading'; and 'risk'. Only one-fourth of respondents indicated that 'anti-corruption topics' were included in their NEID induction program.

Chart 25: Topics Included in NEID Induction Programs

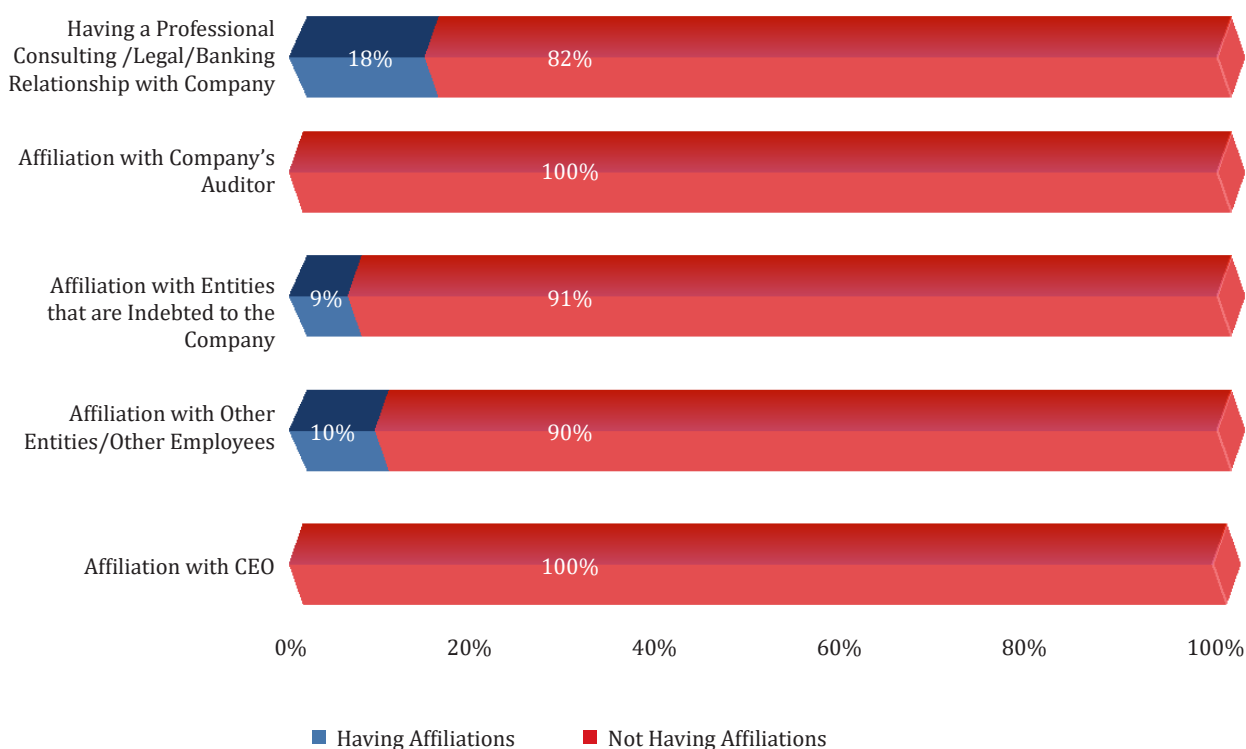


4.2. Directors and their Affiliations

“Section 149(6) of the Companies Act and Regulation 16(1) (b) of the SEBI LODR Regulations set out certain objective criteria for determining the independence of a Director. Under Section 149(7) of the Companies Act, every Independent Director is required to provide a declaration that they meet the legal criteria of independence. This declaration is not restricted to just the first meeting of the relevant Board in which they participate as Director but extends thereafter to the first meeting of the Board in every financial year, or whenever there is any change in the circumstances which may affect their status as an Independent Director.”

Effective corporate governance and objective oversight is driven by the independence of the directors – in the letter and spirit of regulations. Accordingly, one important marker of the quality of governance is to analyze the affiliations that directors have. As per our survey of 2023 – displayed in chart no. 26 – only one in ten boards had a director(s) with affiliation with an entity indebted to the company (to whose board they are appointed). Almost a fifth of respondents (18%) had a director(s) enjoying a professional relation with company.

Chart 26: Directors and their Affiliations



4.3. Lead Independent Directors

Starting from a low base, momentum is gathering around the model of a Lead Independent Director (LID). The LID is seen as a highly versatile intermediary between the chair, the cohort of the NEIDs, and the stakeholders.

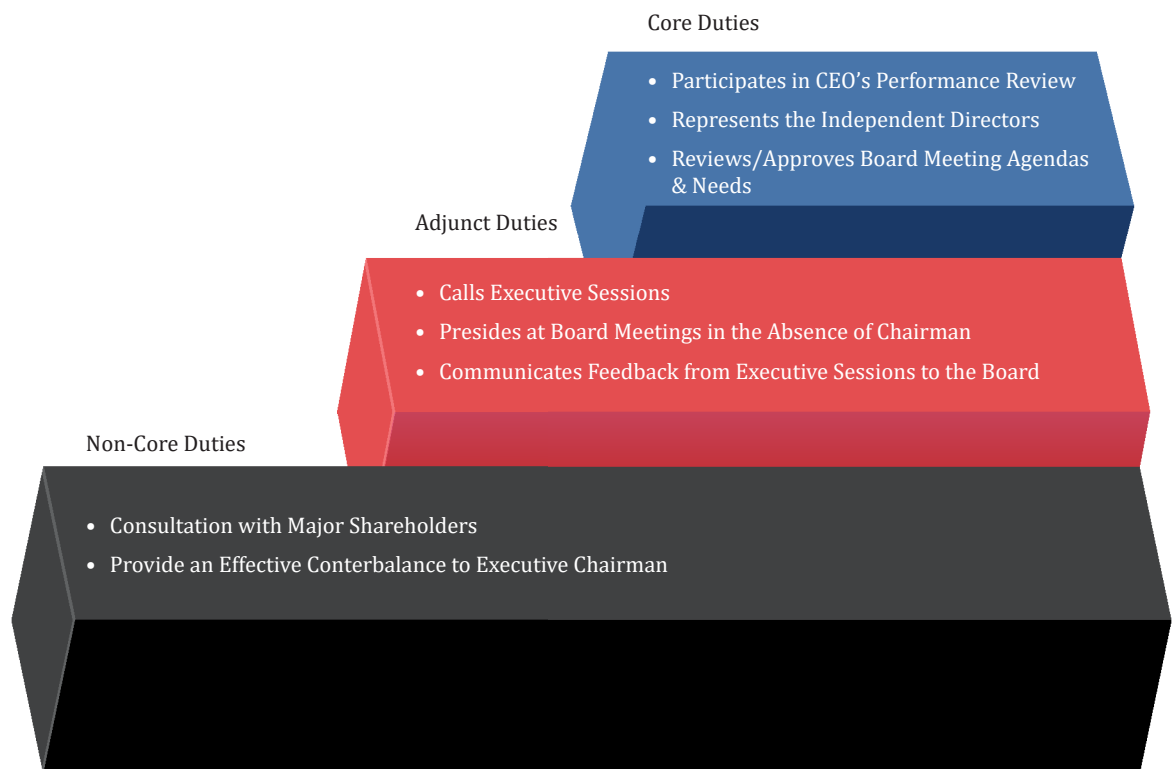
As per our 2023 survey, only 18% of companies had LIDs, while almost four-fifths (i.e., 82%) of the companies did not. But there was convergence in the core duties of the LID,

wherein all respondents agreed the LID should:

- Participate in performance review of CEOs;
- Represent the NEID cohort; and
- Review and approve of board meeting agenda.

Respondents indicated the adjunct duties of the LID would include calling for executive sessions, presiding over board meetings in absence of chairman, and communicating executive session feedback to the board. This is expanded in chart no. 27.

Chart 27: Duties of Lead Independent Directors (LIDs)



“Corporate governance is a spectrum - that ranges from simply meeting the regulatory and legal requirements - to creating standards of excellence through the policies, processes and practices that Boards adopt. Governance cadence is a capability in my view, driven by people, processes, structures, metrics, environment and culture - within the board and company.”

**Ms. Vinita Bali**

Former MD & CEO of Britannia Industries. Independent Director on the boards of CRISIL and Syngene International. Former Independent Director on the boards of Cognizant, Smith & Nephew plc., Syngenta International, and Titan Industries.

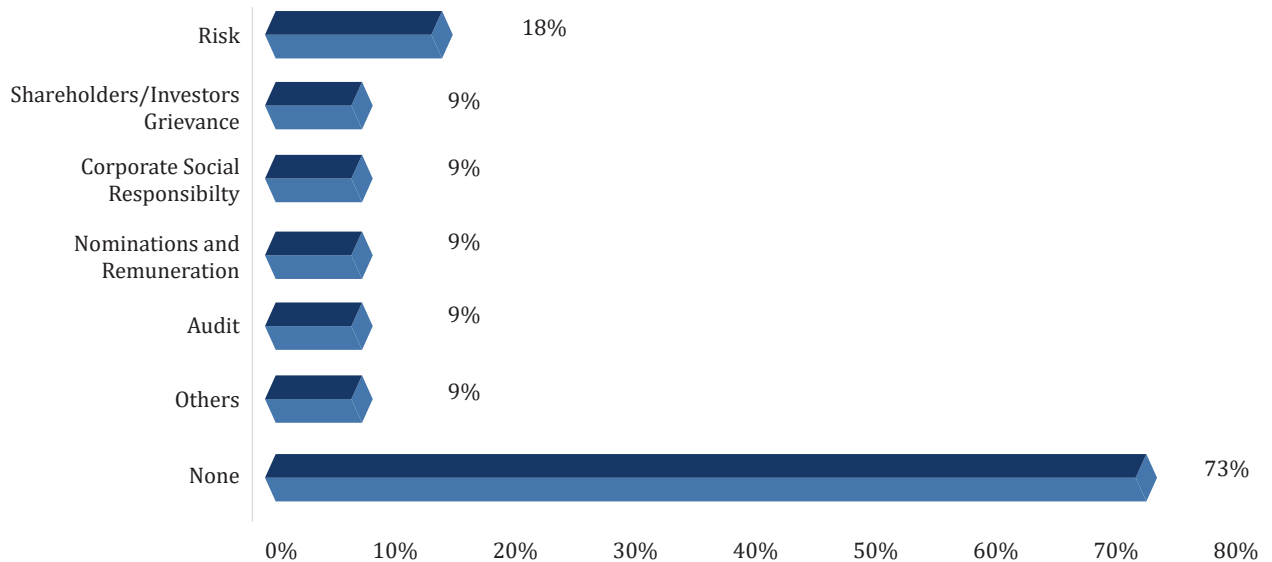


4.4. Constitution of Committees

“Sections 135, 177, and 178 of the Companies Act, 2013, mandate companies to set up Audit, Nomination, Shareholder Relations, and CSR committees.”

In 2023 in our survey, 73% of respondents said no new committees were formed in the Boards on which they serve. On the other hand, 18% of respondents said the Risk Management Committee was newly constituted in their Boards. As chart no. 28 details, a further 9% said their boards formed the Shareholders/Investor Grievance Committee; and 9% said the Corporate Social Responsibility Committee; and 9% said the Corporate Social Responsibility Committee was formed in their boards.

Chart 28: New Committees Formed



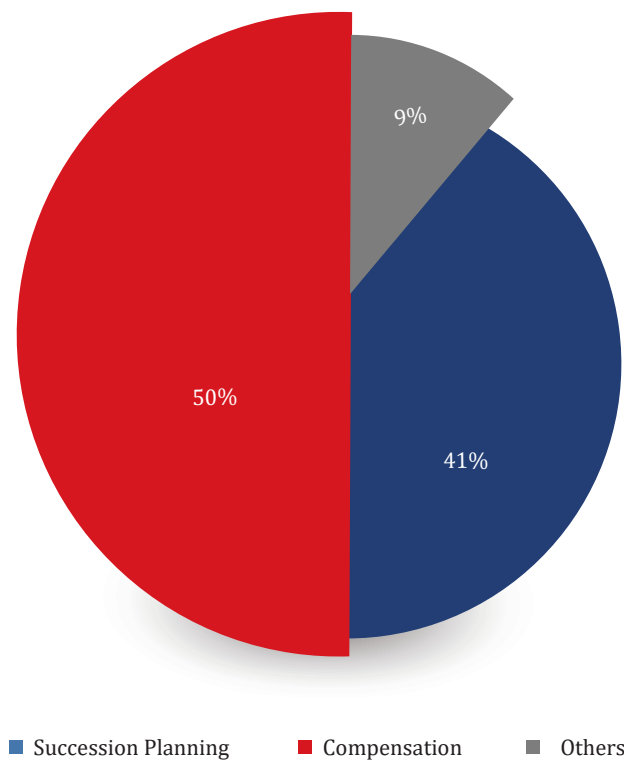
4.5. The Nomination and Remuneration Committee

“SEBI has proposed to make it mandatory for top 1,000 listed entities to set up a risk management committee. Currently, the top 500 listed entities, in terms of market capitalisation, are required to set up such a committee. Furthermore, at least two-thirds of the members of the Nomination and Remuneration Committee will need to be Independent Directors.”

The Nomination and Remuneration Committee is charged with vital matters such as board composition; nomination of directors; succession planning for directors and key management; assessment of NEIDs independence; board and director evaluations; and remuneration for directors and key management.

In our 2023 survey, fully 90% of respondents said their boards' NRC was involved in succession planning and compensation planning. This is denoted in chart no. 29 below.

Chart 29: Core Activities of the NRC



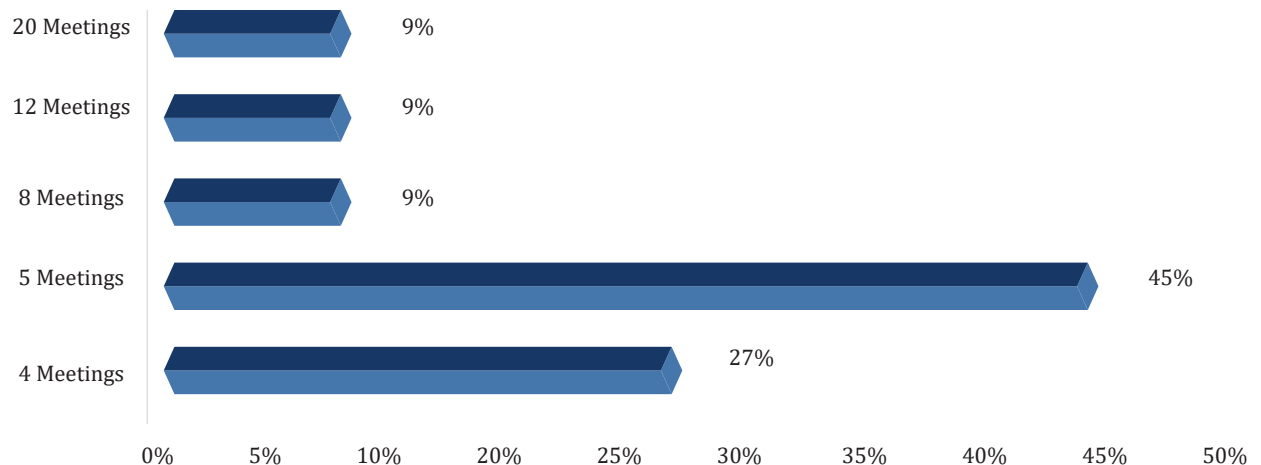
4.6. Board Meeting Frequency

“The Companies Act and the SEBI LODR Regulations require a minimum of 4 meetings of the Board every year, with a maximum gap of 120 days between any two meetings.”

It has been well established that a high-performing board meets regularly. Therefore, the board meeting frequency can inform us of the trend lines and serve as a proxy of the changes in corporate governance.

Per our 2023 survey, nearly half of the respondents (45%) were on boards that held five meetings in the fiscal year. About a quarter of respondents were on boards that were meeting just once a quarter. But reassuringly, 27% of boards were meeting more than 8 times a fiscal year – including almost a tenth (9%) who met a staggering twenty times. This data is provided in chart no. 30.

Chart 30: Number of Board Meetings in the Year



Methodology



The India Board Report 2023-24 is a quantitative and qualitative based research report. The data informing the report have been obtained via a rigorous process of conducting primary surveys, supplemented by secondary research.

Research

Part 1—Primary Research

We conducted two in-depth surveys. The first, with noteworthy non-executive independent directors (NEIDs), and the second, with eminent company secretaries. These participants were chosen from companies that spanned diverse industries. The companies were selected based on certain parameters, including their market capitalization, their inclusion in the stock exchanges, and their ownership. The entities that met these criteria were broadly identified from amongst:

- The BSE 200
- The BSE Midcap
- Publicly traded Public Sector Enterprises (PSUs)
- Multinational Companies (MNCs) listed in India.

For the Surveys, over 250 NEIDs and an equal number of company secretaries were targeted, judiciously chosen across companies as listed above. This survey was aimed at understanding and exploring the following key areas:

- Board composition and structure: impediments and areas of improvement
- NEIDs appointment and remuneration

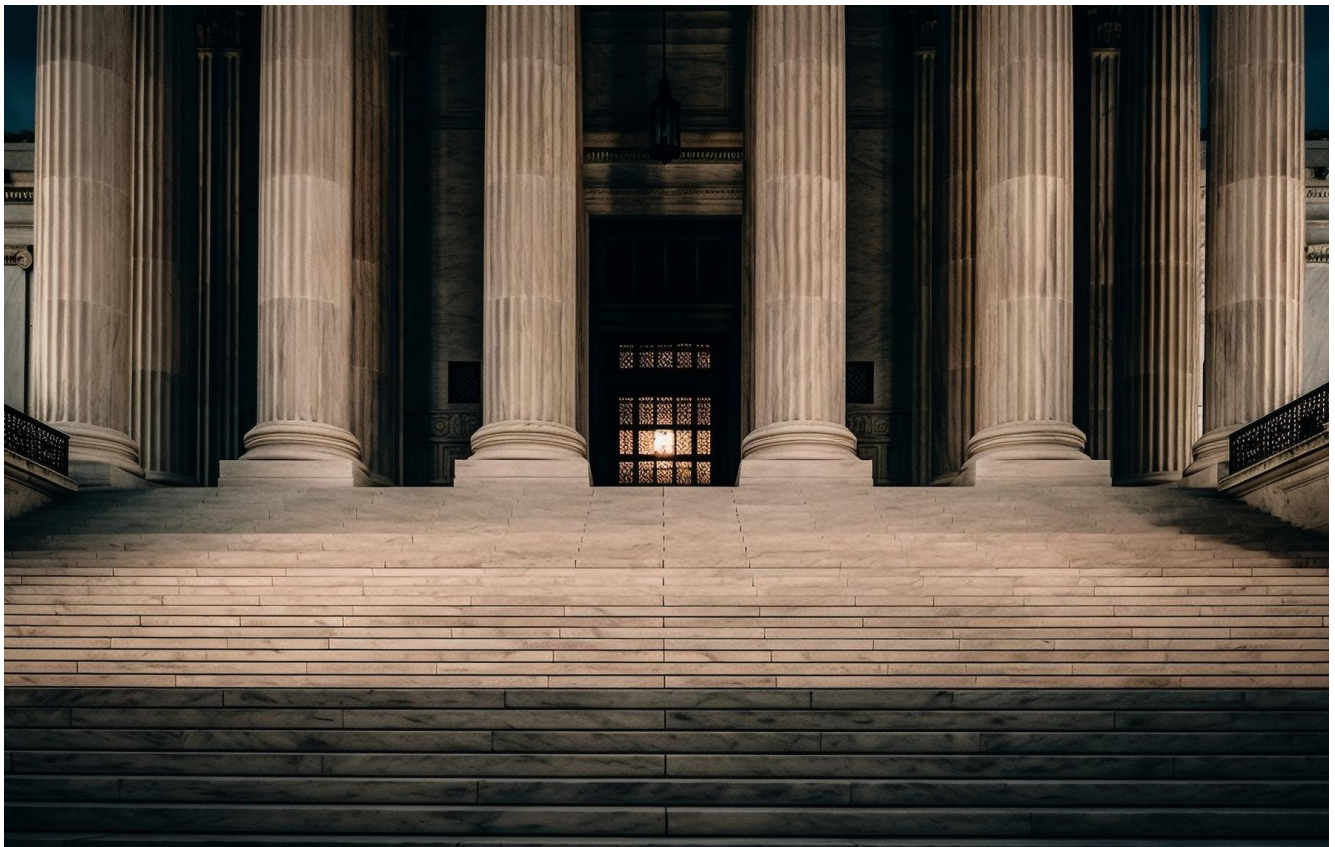
- Committees: Structure, functioning, and trends
- Board meetings: Nature of proceedings, working relationship between Board members, meeting structure, and impact
- Increasing compliance and regulatory affairs
- Board culture and conflict resolution
- Risk identification, policy, and management
- Board effectiveness, Board evaluation, and training
- Discipline and transparency in disclosure of information.

Part 2—Secondary Research

We employed secondary research to arrive at the current and future trends of corporate governance, collating and presenting information from various sources after rigorous verification.

Survey Outcome

The data gathered in the two surveys were analysed according to specific parameters. Many valuable insights were derived from this exhaustive study, which have been compiled and presented in this report.



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The board effectiveness reviews are a broad-based evaluation of the state of the board including its structure, composition, and processes. These evaluations help organizations embrace best practices and to design and implement processes for sustainable performance of the board.





