

The Board: Process of Managing

This paper examines first the performance of the corporate Boards in general, ignoring some exceptions, in order to later develop the role of Boards and how they could be more effective. The data are obtained through interviews, perusal of Board minutes in a limited number of cases and from personal experience. The sample covers 6 public and 2 private sector enterprises and open ended discussion with 15 directors. For brevity, examples are taken from public sector Boards, and reference is briefly made to private sector in the last section of the paper.

Some common comments from interviews with Board members are summarised below:

“Very occasionally issues come up for serious discussion; most of the time with routine matters.”

“Important decisions are taken by the Ministry, not by the Board.”

“A major part of the agenda consists of giving post-facto sanctions for decisions already taken by the management.”

“We have heated discussions between the representatives of the Ministry and the Chairman or one or two other members and the others watch the proceedings.”

“The Chairman is a sound person and consults us privately on important issues. Not much happens in the meetings. The agenda is very long but consists mostly of routine matters. We do our best to go through the agenda so that the management can get on with the job without having to wait for the next Board meeting.”

We asked several members what would happen if there were no Board and in what particular respects the management would be handicapped. Most people interviewed said that they have to obtain sanctions from the

Board and it is useful at times to consult with some members who are able to give advice on specific issues. Several interviewers felt that non-government members on the Board are able to give independent views and the representatives of the Ministry and the enterprise management have to at least hear them. A majority of the individuals interviewed by us preferred to have non-government members on their Boards.

The interview data from respondents may be classified thus:

- The Ministry representatives on the Board have an owner’s perspective. Their participation conveys the sense that decisions on important matters will have to be taken by the Ministry before they come up to the Board, or that the Board can discuss the matter but the decision on the subject would be taken by the Ministry. In exceptional cases the Board may raise additional questions for Ministry to consider but there is rare chance that final decision in important matters will be taken by the Board, even if the Board has legal responsibility to do so.

The following quotes typify the owner perspective:

“We have already discussed the matter in the Ministry and”

“The Bureau of Public Enterprises has already issued instructions in this matter”

“This matter will have to be examined at the Ministry level.”

- The non-Ministry members who represent other departments take up their membership as an assignment, especially as the Board membership is ex-officio. The illustrative responses are the following:
“The Management will have to sort out these matters with the Ministry before they bring them to the Board.”

“What does the Ministry say”

“What Ministry says holds; you have to adjust your thinking to theirs.”

With some exceptions the management of the enterprise do not take the Boards seriously except for routine approval of decisions that lie beyond their powers and need approval of the Board. Most substantive proposals are discussed in the Ministry before they are taken to the Board for completing legal formalities. This procedure is understandable given the pre-eminent role of the Ministry in decision making.

In some cases the Chairman may bring certain specific matters for discussion with a smaller number of Board members to seek their advice.

- In many enterprises, Board members are chosen from other public organisations who use its products and services. The rationale for interlinking membership is that each enterprise would be able to remain sensitive to the needs of others, and develop a product range or services that the other organisations need. The inter-Board membership will encourage each organisation to be aware of the needs of others and, in turn, further the national objectives of import substitution, self-reliance in technology, etc. These purposes are served in some cases but the practice has other consequences as well. This kind of membership, at times, places the management at a serious disadvantage vis-a-vis other enterprises. Chairman of one organisation, for example, said:

“All my buyers are members of the Board and I can hardly ever raise any pricing or product modification issues in the Board as they always oppose these.” He added, “The government must include some outsiders on the Board so that an objective view of these and other matters is taken by the Board. They should view problems as they concern *this* organisation and not how decisions would affect *their* organisations.”

The picture emerging from interviews fits fairly well with my personal experiences of serving on some of the Boards. The role and effectiveness of the Board would have to be examined keeping in view the comments made on how it functions.

What Should the Board Do

The Board must contribute significantly towards enhancing the quality of decision making in operating and directional matters, taking appropriate measures to improve the inputs that would enable the management to achieve sustained growth, and developing sensitive enough indicators to know that results are achieved. The Board has to ensure that the quality of management decisions and managerial processes are satisfactory.

The Board has to perform three roles: the evaluative, the entrepreneurial and the supervisory:

Evaluative role consists of judging how well the enterprise management has set its performance goals, devised an overall strategy to achieve results, and organised suitably to monitor and review performance. Board must review effectiveness of the policies and systems employed for carrying out the business so as to ensure that the responsibility to shareholders and the public is satisfactorily discharged by the enterprise management. In the

evaluative role independent audit of system, procedures and that of the key areas of working may be necessary.

Entrepreneurial role consists of ensuring that new products, markets, diversification and improvements are taken up by the organisation for sustained growth and to respond effectively to the opportunities in the environment. The Board has to ensure that research and development and new products and services are initiated in time and lead to sustained growth.

Supervisory role consists of reviewing performance, sanctioning resources and exercising adequate controls to ensure that planned results are obtained.

The Board should not be the managers of a business, but they should ensure the excellence of its management by appraising that management's performance. The Board has certain advantages over the executive system to perform the tasks that are identified above.

The Board has the advantage of assessing and reviewing performance of the chief executive and his team from a distance, without personal involvement in day-to-day work. The enterprises could benefit greatly with this kind of a review if the task is done seriously. The significance of the contribution and its necessity may be clearer when it is seen in the perspective of the characteristics of large organisations. Three of these are relevant for the present discussion. They are briefly outlined below:

- Organisations socialise people, and newcomers imbibe the organisational culture. Individuals are rarely aware of the conditioning in their responses. They react to their environment and to organisational problems in a standard manner. Reactions and responses are more often programmed in organisations which restrict lateral entry of outside personnel at all levels of the hierarchy. In India, the entry being restricted, organisations are more subject to the danger of conditioned responses.
- A second characteristic of large organisations is that differentiation in their working is emphasised more than integration (Lorsch and Lawrance, 1970). Each department functions in isolation. The interdependence between them is emphasised less than their separateness. The chief executive also often deals with each department separately. The perspectives, even at the senior management levels, are segmental rather than wholistic. Consequently, the policy and practices lack the perspective of interdependence and wholeness. The policy formulation must, however, take the perspective of the totality, even in functional areas and the Board has to consciously emphasise

this outlook. If wholistic perspective from policy making is ignored, the tendency to develop separateness in the enterprise will be more prominent than togetherness.

- Public organisations must keep the interest of the public, the shareholders and the employees in view and this balance must be ensured in decision making. Equally important are issues relating to technology upgradation and diversification. The operating management do not raise such issues if the current performance meets the performance targets.

The members bring a number of different experiences to the Board and are likely to examine issues placed before them from perspectives that are at times different from those of the management. Some of the things taken for granted by the executives, or seen as impractical in their situation, may not be considered so by those who have experience in other situations. For example, in one organisation performance budgeting was assumed by the executive management as applicable to manufacturing and not for their service industry, but succeeded well enough when some Board members suggested that the chief executive might promote a study to determine how other service industries have introduced the system and, after study, they decided to try it out in their organisation as well. In another situation a new industrial relations approach became possible after the officers concerned were requested to visit certain other organisations which had successfully solved some of the problems that were similar to their own. Bhattacharyya comments (1981: M-105):

“Abilities of the executives, even at the director’s level, to look at these matters objectively and dispassionately is limited because they are so intensely involved in these activities.”

While technical and subject knowledge are necessary in deliberations of the Board, fresh perspectives and questioning of proposals is also essential. The Board must, therefore, consist of persons with subject expertise and those who can provide different perspectives to examine issues in hand. A mixed Board would serve the purpose better than one that has predominance of one group or another. Recommending a mixed Board of members from within and from outside, Cabit says (1976 : 41):

“The practice of having inside directors is an excellent means of giving the outside directors more exposure to others in the corporations they serve without adding to the president’s time burden.”

The Board, by its variety of expertise and perspectives of wholeness, is best placed to contribute positively to the quality of decision making. However,

there are some areas in which the executive system is better placed for decision making such as the following:

- The executive system is likely to take more suitable decisions on individual proposals than is the Board. Such decisions require technical expertise, experience and continuity in time. The executive system has the knowledge of the subject and training to carry out technical tasks and has the responsibility to prepare the subordinates to analyse data for appropriate decisions.

The Board as a whole is neither expected to have the technical knowledge of the subject, nor continuity in time, as the membership changes, and, therefore the Board is not in a position to contribute to good decision making on individual cases. The Board can lay down guidelines and periodically review how well they are followed in decisions taken by executives. The audit reports should be an important source of data on how well the executive system adheres to the guidelines. The decisions on individual technical matters should be the responsibility of the executive system.

- Board is seldom in a position to formulate on their own corporate or operating policies. They can indicate the direction of these policies and react to the proposals of management for Board's examination and approval. The effectiveness of the policy that the Board may set out depends, to a large extent, on the ability of the executive system to work on the various policy areas. The effectiveness of the policy will depend on how well the Board is able to give direction and the executive system's elaboration of it. The two are interlinked.
- In many organisations, the Board reacts or responds to proposals but rarely initiates them, except on a rare occasion when some member may do so in the area of his personal preference. Often enough the management do not even welcome such an initiative, as they take such initiatives as censure of what they have done or not done. In one instance when one member suggested that the organisation may wish to explore a comprehensive basis of relationships with trade unions, a highly defensive note on the state of industrial relations ended the discussion on the subject. Neither other co-members seemed interested in the subject nor the management.

The Board, as a whole, have limited knowledge of the organisation and its particular technology. The information about the management and its problems are known to the Board through the top management, who are themselves quite often removed from the base line activities. The top

management, as any other work group, rationalise their actions and receive data selectively—one hears what one wants to hear. The understanding of the particular enterprise's functioning by members of the Board is selective and often incomplete. The data are more reliable if relationships between different levels of the employees in the organisation are open. In such an organisation the probability is high that the information available to the Board and to the management is reliable and it can be used for policy decisions. In organisations that have open relationships, the Board would feel free to obtain additional data without inviting defensive reactions from the executive system.

There is need for Board members to understand the uniqueness of the operating system, its strengths and weaknesses but, as outside directors, they are usually not in a position to obtain an overall view of the management system. Hence, the Board must develop indicators that would show how well or poorly the organisation is functioning; absence of sensitive enough indicators would prevent the Board from discharging their responsibility. The information system will have to be comprehensive. It must show how well the executive system has used policies in letter and spirit, and how effective have they been both in the functional areas and at the corporate level.

Why Boards Perform Limited Functions

Among the important reasons why Boards may have a limited contribution to make to the effectiveness of the management are perhaps three. They are:

- (a) The nature of the managing system;
- (b) Lack of clarity of the role of a Board and
- (c) Lack of personal responsibility on the part of the members of the Board.

These are examined briefly so as to later discuss the approaches that would enable the Board to be effective.

The Nature of the Managing System

Irrespective of size, most organisations in India are managed in informal ways and by a handful of men at the senior levels. The decisions are based on past experience and hunches and rarely on systematic analysis of data. It may appear that data are generated more for their own sake than to improve decision making. Since the decision making is based mainly on experience and hunches of a few top managers, and they are involved largely

in operating decisions rather than strategic or policy decisions, the Board has limited opportunity to contribute effectively to the process of decision making. The Board is rarely required to take entrepreneurial decisions; as such decisions are taken generally by the Ministry or the family. The budgets are also submitted to government and approved by them; the review is confined generally to expenditure and not to performance.

Lack of Clarity of the Board's Role

From an analysis of the working of the Boards only two core functions appear to stand out. One, resolutions to discharge responsibility under the various laws governing the enterprise, and two, sanctions or approval of expenditure or proposals that lie beyond the powers of the corporate management. The second task takes nearly two-thirds the time of the Board; all other tasks combined take the remaining time. The evaluative and the entrepreneurial roles of the Board receive limited attention. The Board's responsibility, judged from what it does, or from the contribution it makes, is marginal. It has neither marked impact on the directional nor growth functions of the enterprise. The Board can perform these functions provided the enterprise has responsibility for its own destiny, and the membership of the Board were chosen with the task in view.

Given the continuing protection and direction by Ministry in the functioning of public enterprises, and the owner perspective by Ministry's nominees referred to earlier, the Board has a limited role. The effectiveness of the Board will depend primarily on the clearer definition of the enterprise management and the government. If the government were to assume the shareholder's role and the responsibility for the regulatory functions, leaving the management in professional hands, the Board's role would become significant enough. If the government also takes upon itself the task of what may be best described as shadow management, the Board would be able to perform only the statutory functions.

Lack of Responsibility of Individual Members of the Board

Unlike the United States, Board members as individuals are rarely held responsible although in law they are held responsible for Board decisions. As a result, the individuals do not show adequate responsibility either for decisions taken by the Board or for seriously debating the issues.

The Administrative Reforms Commission points out the casual manner in which public servants view Board membership, thus (ARC: 30-31):

“... Some of these representatives of the Government on the Boards do not care to acquaint themselves with the agenda even when they attend meetings. Since they feel it did not very much matter what the Board decided since the real or ultimate deciding authority was the Ministry itself, and they could exercise their minds and their rights when the matters went up to the Ministry from the Board.”

This attitude of casualness applies as well to many other directors on the board. It is common to observe that several members rarely speak in Board meetings. In India the responsibility of membership is less than seriously taken, especially when the membership is by the position occupied by the individual and not for his particular contribution to the tasks that the Board is required to perform. However, the type of Board membership required will depend upon the role it is assigned. The decision on what kind of people should be nominated to the Board will naturally depend upon what contribution do the government feel the Board should make to the working of the enterprise.

The improvement in the effectiveness of the Board depends on the quality of the systems of management and a clearer definition of the role of the Board and its members. Vigilance on the part of the Board may improve the quality of management decision making but, ideally, the effectiveness of the two is linked.

Making the Board Effective

The Board performs a distinct function. Its contribution to effective management is different from that of the executive system. It has the evaluative, the entrepreneurial and the supervisory roles with emphasis on safeguarding public interest. Public responsibility may be a value choice for the executive system, but safeguarding public interest is an obligation for the Board. Efficiency may be best managed by the executive systems but effectiveness of the enterprise is a responsibility that the Board must pursue. The Board is a bridge between the public and the executive system; it must be the public conscience of the management. The Board has to oversee what is done and how it is done and, in both these, how well the interests of the shareholders, the public and the organisation are balanced.

The Board's role in public sector enterprises is ambiguous. The Administrative Reforms Commission refers to this position as follows (ARC 30–31):

“... in the present scheme of things where policy is laid down by the Government and important powers of financial controls are exercised by the controlling Ministry, the role of the policy making board becomes somewhat ambiguous and atrophied. It cannot deal with high policy since it is a prerogative of the government. It cannot deal with day-to-day administration which is within the domain of the chief executive. Thus it is reduced to a quasi-administrative level and compelled to look for and function in an area which is neither reserved to the government nor delegated to the chief executive. It is in this context that some of the policy making boards, as constituted today, attract the criticism of being ineffective and even redundant.”

Some authors have suggested that the Board of public sector enterprises should serve as a buffer. Sharma (1981: 963) elaborates the buffer role and suggests that in this role the Board:

“... interprets the ministerial directives and transmits, in an intelligible form, the political will to the executive management. At the other end, it advises the enterprise’s executive management on how best to secure the execution of the directives received, from time to time, from the government. Also, as a buffer, it checks the minister’s tendency to involve himself in the detailed, day-to-day management of a public enterprise.”

Lack of direction and evaluation of performance of public sector enterprises, generally, raise serious doubts on the desirability of the ARC’s position or the buffer role of the Board in these enterprises. The debate could not be seen to rest with the ambiguity surrounding the responsibility of public sector Boards. I share the view that public sector Boards should be responsible for performing the evaluative and the managerial roles as Boards of any other enterprise, and have substantial responsibility for entrepreneurial tasks though final decision making in this area will rest with the concerned Ministry. The government can neither provide the direction in operating matters nor can it review the performance as fully as required for effective management of an enterprise. There seems little reason why the public sector enterprise should not finance its own growth and depend upon existing financial channels for its normal requirements and seek additional support from government in exceptional circumstances. The Board should also be responsible for justifying why the support from the government is needed for loans or revision in equity finance. The role of the Board, the executive and the government have to be demarcated and each should be able to contribute towards the achievement of the mission of the enterprise. Ambiguity in the roles of the three, i.e. the Board, the executive and the government have had a part in encouraging the present drift in

management of public sector enterprises and to their poor results, putting extraordinary strains on the national economy.

The dysfunctionality of the Board and its ineffectiveness shows up in another way. The important decisions taken by Ministry are automatically accepted by the Board. Maheshwari (1981: M162) emphasises this dysfunctionality thus:

“Even though the Board of a public enterprise is the highest directing and decision making institution, in effect most of the important decisions continue to be taken in the state government secretariat, whether they pertain to investment or appointment of senior managerial positions. Moreover, it is seldom recorded but often practised that the Board is given the ‘benefit’ of the thinking of the government so that government decisions get incorporated into Board resolutions. There is a provision for the use of directives from the government to the public enterprise but when the Boards are ready to comply, the need for such formal action does not arise.”

Government has two distinct roles. First, the shareholder’s responsibility to ensure that the enterprise is successful and serves the purpose for which it is set up. Two, regulatory role to ensure that the enterprise follows the general guidelines set for industrial and economic organisations. A clear view of the shareholder role by government is important for defining the role of the Board. The regulatory role is universal and applies generally to all organisations.

If the Board is required to optimise the results and the effectiveness of the enterprise, the members would have to feel direct responsibility for it. Brown (1971) has drawn a distinction between representative and executive roles. In the representative role, one has to ensure that the interests of the group he represents are served well and that his constituents are satisfied with the stand he takes on the various issues. In the executive role the individual is concerned with optimising use of resources that are given to him to achieve agreed results. The goal and direction of the two roles are different. The Board is not a representative role and conflict of interests could make the decision making difficult. The Board should, therefore, not represent interest groups among its members. Choice of membership is necessary for effectiveness of the Board. Maheshwari (1981: M167) illustrates the danger in this way:

“... the Boards consisting largely of officials are ineffective as centres of countervailing power vis-a-vis the secretariat since it is difficult for them to forget their full-time roles in the bureaucratic system while deliberating on the problems of a specific public enterprise.”

Members should be chosen for what they can contribute as individuals and not appointed in *ex-officio* capacity. Choice of members and an appropriate mix of interests is important for the functioning of the Board. The mix is important as their expertise and experience would enrich the quality of decision making.

Board members must have personal responsibility for decisions. The subject has to be taken with seriousness and at times additional studies may be needed to decide on some important issues. In many cases the Board papers are handed over as one enters the meeting room. It may be too early in India to provide legal provisions for personal responsibility of Board members, but care has to be taken that the individuals selected take the membership seriously and the management take pains to feed relevant data to the Board.

An effective Board has always to consider how it can carry out its tasks without curbing the initiative of the chief executive. A clear understanding of their respective roles by the chief executive and the Board is important for both to work to good effect; the role of the chairman of the Board is crucial in bringing about this understanding. In public sector enterprises, the ministry, too, has an important function. There are many examples of organisations when either the chief executive leaves his job because the Board gives him the feeling that he is always in the 'dock' having to defend all his decisions, or the Board at best serves as a 'rubber stamp'. Both situations defeat the purpose for which the Board is set up.

The 70's have seen a great deal of rethinking of the roles of the board of directors in the United States. In the last ten years it has become more responsive to shareholders by becoming actively involved in the top management process, setting policy and monitoring performance*. Omark Industries were the first to describe in early 70's what they expected of their board of directors, a practice which was later followed by several other companies. Texas Instruments expect their directors to spend 30 days or more at their job and they pay them accordingly. They pay a retainer rather than sitting fees for board meetings (Macs, 1976). Developing countries like Nigeria, Kenya and some other countries in Africa have adopted the same pattern to make their Boards more effective. The concern has grown for making Boards more effective and for the prevention of misdeeds in corporations. Cabot (1976 : 40) says:

"Not many years ago, Boards of public corporations were generally made up of prestigious friends and associates of the chief executive. These individuals loyally passed boilerplate votes and enjoyed each other's company

for lunch but rarely considered in any depth the serious issues facing their companies.”

Later he says

“But these practices clearly fall short of the laws placing responsibility upon directors. They provided very little control over the judgements of management and even in times of trouble they brought too little director reaction too late.”

The improvements have come in three areas. One, the responsibility of the Board is sharper and members are required to contribute to its effectiveness in their personal capacity. Two, the choice of membership is made with greater care, and three, legal action is taken against Board members for infringement of legal provisions. These actions, together with a clearer definition of what the Board should do, have generally improved their performance in the United States. These considerations appear to hold true for India as well. Any approach to make the Board effective must deal with the following questions:

- (a) What roles does the government want the Board and the Ministry to play?
- (b) What collective and individual responsibility for decisions respectively should the members and the Board have?
- (c) What decision areas should be left totally to the Board and to the Ministry?

The Private Sector

Our data, however limited, show that Boards in the private sector are generally no more effective than they are in the public sector. Instead of the over-riding influence of the Ministry in public sector, the managing family or the dominant controlling groups play the decisive role in evaluative and entrepreneurial roles. The Board comes into the decision making process where legal provisions in the Company Law so stipulate.

The Board members are rarely aware of the total operating and developmental aspects of the enterprise. Exceptions to these situations are when one interest group is trying to displace another group that holds office. National Rayon is an outstanding example of this phenomenon where the tug-of-war for the managing control of the Corporation raged for a while and interest groups were pitched in battle to show how ineffective was the group that managed its affairs.

In most organisations four to six meetings of the Board are held in a year. The average duration of these meetings is about an hour or so. The agenda papers are few and specific to the point. The main items included for discussion are those which the Board must approve in law. The representatives of the financial institutions take more interest in the performance of the enterprise and have started to ask for more data. This practice may be seen as a beginning of professionalisation of Board directionship. Most directors interviewed in this study however complained that they do not get enough data from the concerned organisations and most managements consider their requests for data as infringement of their rights.

Large multinationals have working Boards and meet more frequently. They perform the Board functions more fully as they hold executive responsibility as well. These Boards, however, do not have outside members and have to rely on their own resources to provide inputs that outside systems would do in a mixed Board. In such circumstances the distinct responsibility of the Board and that of the executive system is also merged and the chairman has to consciously develop awareness among the members of this distinction.

With rare exception, the dominant characteristics of the Board in private sector could be summarised thus:

- (a) The Board does not play an effective role in the evaluative, the entrepreneurial, and the managerial functions. Some individuals on the Board are occasionally consulted on specific issues but the Board as a whole does not 'interfere' with the management.
- (b) Board members rarely take interest in the task assigned to them. Members are largely invited for their position or relationship and not for the particular contribution that the Board needs.
- (c) Important decisions are generally taken outside the Board, though they are ratified by it.

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