

Strategic Management for Competitive Advantage
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Lecture 40
Roles and Responsibilities of Board of Directors

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CONCEPTS COVERED

- Corporate Governance and Management
- Roles, responsibilities and power of Board of Directors
 - Strategic Management Role and Style of the Board and top Management
 - Composition, structure and size of the board
 - Keys to improve the Board Effectiveness
 - Board & Directors' Performance Evaluation
 - Code of conduct, code of business ethics, and corporate governance code
 - Gist of various Committee Reports on Corporate Governance

Welcome to the course Strategic Management for Competitive Advantage. Today we will start a new module. It is Corporate Governance, and in the first lecture, we will cover the Roles and Responsibilities of the Board of Directors. So, we will go through the concepts of Corporate Governance and Management and the interface.

The Role, responsibilities and power of the Board of Directors these two will be covered in the first lecture; after that, in the next lectures, we will be covering the rest of the things like

the Strategic Management Role and Style of the Board and top Management then Composition structure and size of the board, Keys to improving the Board Effectiveness, Board and Directors' Performance Evolution then we will also be covering Code of conduct, Code of business ethics and corporate Governance code; lastly we will be going through gist of various Committee Reports on Corporate Governments.

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13. Corporate Governance

➤ What is Board of Directors (BoDs), its characteristics, and importance?
(e.g. Eastman Kodak Co.)

Interface between Governance and Management

Governance	Management
<ul style="list-style-type: none"> Governance is the system by which companies are directed and controlled 	<ul style="list-style-type: none"> Management concentrates on the implementation of the systems
<ul style="list-style-type: none"> Governance function focuses on overall control, principles and values, strategic issues and its execution 	<ul style="list-style-type: none"> Management function focuses on performance and results, operations management and its execution
<ul style="list-style-type: none"> Governance is concerned with the conduct of leadership 	<ul style="list-style-type: none"> Management is concerned with the operational running of the organization
<ul style="list-style-type: none"> Governance is about approving policies and goals, and is described as "hands-off" 	<ul style="list-style-type: none"> Management ensures policies are implemented and goals are achieved; and is "hands-on"

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So, let us start with Corporate Governance and Management and the Roles and Responsibilities of the Board of Directors. So, to start with, what is the Board of Directors? All of the companies have a Board of Directors. So, what are its characteristics and importance? We will explore it first, like how you define a Board of Directors. The Board of Directors is an apex policy-making body of an organization. It is generally at the headquarters for multinationals, and all it is in their corporate headquarters, they decide it.

So, this apex body policy-making body, what does it do, formulates the plan and its formula and gives the directions. So, what are its characteristics? This board consists of individuals who are the board members and are called directors, and we will discuss many types of directors later.

So, these directors, these individuals, do not have any authority when they are acting individually, but collectively board has tremendous power, and it can take any policy decisions, even removing the CEO from the organization. A few years back, you have seen in India also that the Board of Directors removed one of the top companies' CEO that what was that Tata Sons removed what their CEO.

So, all of that is about it. So, individually, these members do not have much authority but collectively have tremendous authority. Now, I will give you an example of the importance of the Board of Directors. The Board of Directors consists of executive directors and non-executive directors. Those non-executive directors are the independent directors, why they are there, and what we will discuss in the next lecture, but take the case of Eastman Kodak company. Eastman Kodak Company is an American company set up in 1883. It was one of the most admired companies on the list, and in 1993 it had slid down to the bottom.

So, why was this sliding there? Eastman Kodak was established in 1872, and for most of its journey, it was one of the admired companies, but it had those 83 to 93 people who had seen it constantly sliding down, and analysts gave various reasons.

The reasons are like this and must have been that the company was in the chemical imaging, and they did not want to come out from there because they were earning huge revenue from there; it was difficult to go for the other products. They were blotted like excess people, reluctant to go for the new products, and all like digital imaging and all those were coming they had invested to it but were not that successful.

So, all these reasons were there. So, when these things were coming down, their fortune was coming down, and the Board of Directors were very concerned. Usually, the CEO that time was Whitmore, Mr. Whitmore, Whitmore was from the inside-grown of the company. Usually, the Kodak had Eastman Kodak had the culture of rising from the rank. They grew with the company, and this Whitmore joined in 1957; he was CEO, but one or two independent directors thought to replace Mr Whitmore.

So, they led the campaign and replaced Whitmore with the Motorola CEO, Mr Fisher. Motorola was a very resilient and great company with innovative companies. So, it had a great reputation when Fisher came, then this Board of Directors giving one agenda like the way to turn around is to have cost savings, we have to cut down the cost.

Fisher, after four months, placed a report to the Board of Directors telling cost cutting alone will not do the things that here you have to go for the new product, you have to divest the loss-making investment, loss-making assets, and you have to be in core products and all and go for digital imaging and all those things he had given it. Now, the point I was impressed upon is that it was the independent directors through independent directors are the outside directors.

So, these non-executive independent directors led to a change in the CEO and gave the organisation a new direction or vitality. So, this is the Role of the board and the power of the Board of Directors; they have to give leadership, set directions, and all the growth-oriented strategic things are their concern. So, one more thing is that BoD is concerned with Governance, not to day to day work. It is Governance, whereas Management is concerned with implementing the plan. So, next, we will discuss the Interface between Governance and Management.

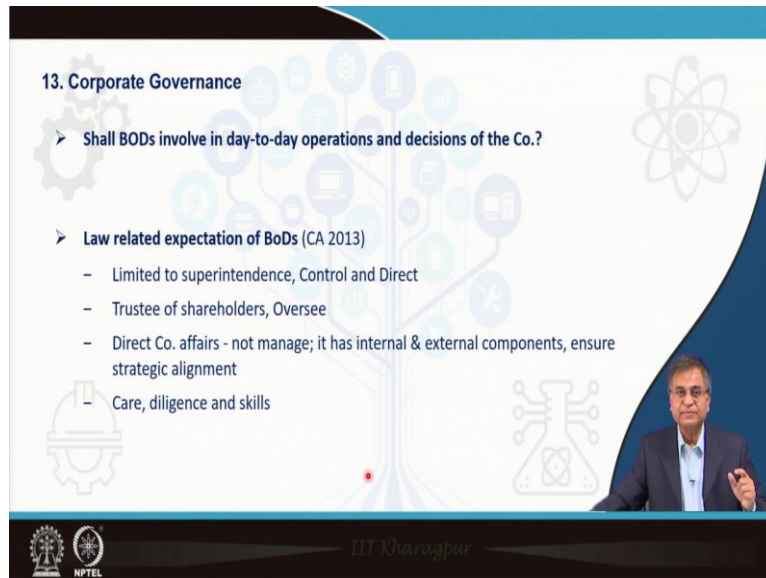
So, we are doing Corporate Governance. So, what is Corporate Governance? What do you mean by Governance? So, what are the differences and the interface between Governance and Management? So, we will be discussing it now before we proceed further.

So, here you can see Governance is that; Governance is the system by which companies are directed and controlled. It is a framework, a system through which all large corporations are directed and controlled, whereas what is Management, Management concentrates on implementing the system. It is the implementation. What is the system you implement? Then Governance function focuses on overall Control, principles and values, strategic issues, and execution.

So, it is the top line those things are concerned with Governance. The Management function focuses on what, performance and result, Operations Management, and execution. So, it is more of an operational in nature implementation. So, Governance is concerned with the conduct of leadership. It shows the set direction, creates a shared vision, brings out change, deals with change, and gives a head to the organization.

So, it is leadership and Management are concerned with the operational running of the organizations and how efficiently organizations run. Government is about, Governance is about approving policies and goals, and it is described as "hands off"; it is "hands off" they do not do day-to-day work. In contrast, Management ensures policies are implemented, and goals are achieved, which is essential "hands-on". So, it is closely linked with the operational part of it, and these are the interface between Governance and Management.

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13. Corporate Governance

- Shall BODs involve in day-to-day operations and decisions of the Co.?
- Law related expectation of BoDs (CA 2013)
 - Limited to superintendence, Control and Direct
 - Trustee of shareholders, Oversee
 - Direct Co. affairs - not manage; it has internal & external components, ensure strategic alignment
 - Care, diligence and skills

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Next, with this keeping in mind, we will be going to discuss some points. Now answer. Shall the Board of Directors involve in day to day operations and decisions of the company? BoDs are not supposed to manage day-to-day operations; they are in the approving the policy, formulating the policies, formulating the strategic plan, approving it and giving it to Management for its implementation that day to day, so day-to-day operations and the decisions they should not interfere then there will be a conflict with the Management.

So, they should desist to refrain from taking part interfering in day-to-day operations. So, next, these BoDs have some law-related expectations. They are supposed to do some law-related activity enshrined in the corporate companies act 2013, and also Sebi LODR I will be coming to it. So, what are the law-related expectations from BoD? BoD is supposed to do these are law-related jobs are limited. BoD's Role is limited to superintendent control and direction that will give directions to the Management, which will give the directions to the CEO.

So, to carry out the, carry out the policies or the strategic plan which they have approved and the superintendent like will oversee the functioning of the CEO and the top Management, and they will control that. So, they are the actually BoDs main function is they are the trustee of shareholders, as trustee of shareholders they are to safeguard the interest of the shareholders. So, that is their primary function then; they should direct company affairs and not manage, as I have already explained to you in the earlier point.

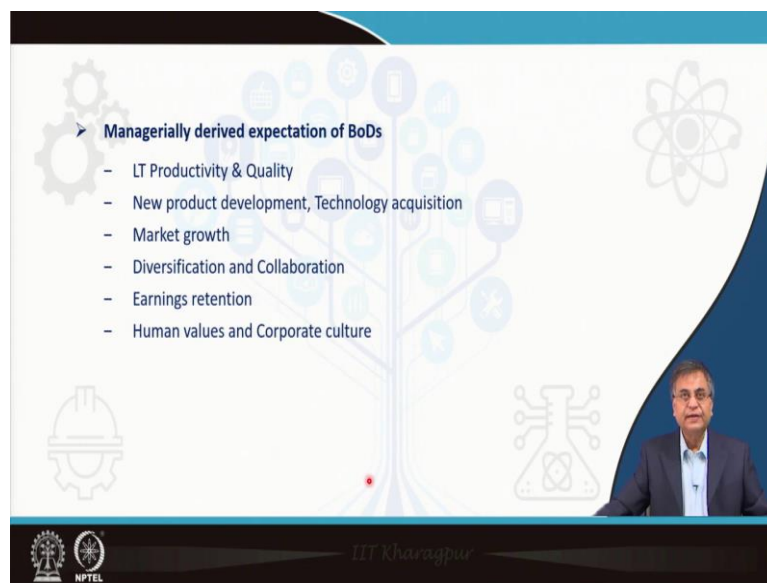
So, directing function this directive function has two components, an internal component and an external component, what is an internal component of directing function, is executing the

action, executive action and its implication the such as suppose executive action and its implications may be R&D work, maybe capital budgeting, maybe new project, maybe the lending agencies.

So, all these things might be implications and all supply chain networks. So, these are the organisation's internal components. Any executive action may have an internal component that the organization will affect; the external component is that these executive actions and all may have an environmental effect. In the environmental component, you scan through the opportunities and threats and look at the way, the new opportunities and threats.

So, the directing function external and internal components should match each other like there should be strategic alignment. There should not be any misalignment or mismatch of these two components, these are the directive functions, and BoDs should act with care and diligence and with the skills they have. The directors and Board of Directors are experienced people in their field, which I will tell you about later. So, they have experience in the industry and their domain. So, they should know how to act with care, diligence and skills. These are the law-related expectations of BoDs. These are enshrined in the companies act 2013.

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So, besides the law-related expectation, there are Managerially derived expectations of BoDs. BoDs should not interfere in day-to-day activities, as I told you. Still, they can interfere or give suggestions, not interfering give suggestions they can involve themselves in some of the managerial functions which are long-term and will have will affect the company's working company's fortune in the long run in that they can give their suggestions and involve.

Say long any issues or any that has long term productivity and qualities of the product or the services company is providing if it has the long term issues and all they can give their suggestions and share their opinion. They should see that the long-term productivity and quality of the organization's product and services should not suffer at the cost of its short-term profitability or goals.

So, it should not be compromised and should not be at the cost of long term. So, this has to be what they should be concerned with. Then also, they can give their suggestions on new product development and new technology acquisitions, which have long-term and long-term implications for the organization. So, they can give their opinion, give their suggestions.

Similarly, they can also suggest healthy market growth in how it can have and how they can capture the market shares against the competitors these things they can give their suggestions and be involved. Also, they can oversee the Diversification and Collaboration activities of the organization on sound lines.

So, these have long-term implications for the organizations' diversification and collaboration growth pattern. Also, they shall judiciously see the Earnings retention, the policy of the organization, how much earnings should be retained and ploughing back to the growth, to the growth of plan of the organizations, how much should be given for the payout, dividend payout and all those they should oversee.

And they should also involve themselves in activities related to improving Human values and exalted Corporate culture that have a bearing on they can give their suggestions and apply themselves. These are some of the managerial-derived expectations of the Board of Directors.

(Refer Slide Time: 21:57)

13. Corporate Governance

➤ Roles, Responsibilities & Powers of BoDs

Exclusive powers of BoDs (Sec 292)

- Investment of funds
- Borrowing of money
- Making of loans
- Issue debenture
- Making calls on the shareholders for unpaid money on their shares
- Declare dividend

The slide features a background graphic of a stylized tree with various icons (gears, a lightbulb, a person, etc.) and a large atom symbol in the top right corner. A small inset video of a man in a suit is visible in the bottom right corner of the slide area. The bottom of the slide shows the IIT Kharagpur and NPTEL logos.

Next, we will discuss the Roles, Responsibilities and Powers of the Board of Directors. These are the Exclusive powers of BoDs, enshrined in section 292 of the companies act. What are the Exclusive powers of BoDs? We have already seen some of the Roles, Responsibilities of the BoD.

Now, with Exclusive powers, they can make investment decisions for funds. So, how should the funds be invested, and in which portfolio is their Exclusive powers? Then for Borrowing money they suppose they have, they are going for a merger or acquisition of a company, a new venture, or a new plant commissioning.

So, you need money. So, if you borrow money from the market, they have Exclusive powers in making loans. So, taking loans or making loans and all they have, the BoDs have Exclusive power. Then issues of debenture issuing are also the exclusive power of the BoD Board of Directors.

Then making calls on the shareholders for their unpaid money on their shares. So they can call on these for the shareholder. Then the body is empowered to declare a dividend, and the Board of Directors only decides the dividend payout. So, and so these are, these are some of the Exclusive powers of the Board of Directors.

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13. Corporate Governance

➤ **Roles, Responsibilities & Powers of BoDs**

Restrictions of power of BoDs (Sec 293) s.t. consent of GM of the Co.

- Selling, licensing or disposing of Co.'s property remittance of debt due by any director
- Borrowing money limit < NW of Co.

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Then but BoDs also have some restrictions or limitations of power. We will be talking about those restrictions of power. It is also in section 293 those are; what are those? Those are selling, licensing or disposing of the company's property and debt remittance due by any directors, so these are some restrictions. What are those?

Borrowing, then they have restrictions on borrowing money. The limit cannot be more than the company's net worth, and it must be less than the company's net worth. So, all these are subject to the consent of the company's general meeting. They have to get it passed in the company's general meeting. So, these are the Restrictions or Limitations of the power of BoD.

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13. Corporate Governance

➤ **Responsibilities of BoDs**

- Set corporate strategy, overall direction
- Hire and fire top management
- Control and monitor top management
- Review and approve use of resources
- Safeguard shareholders interest

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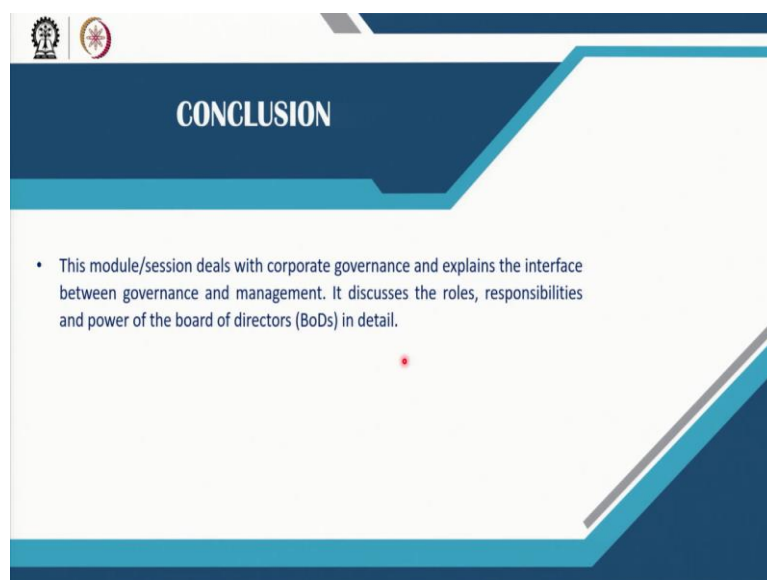
Next, is, what are the responsibilities of BoD? As we have already discussed, I will talk about the BoDs' responsibility. This is an outcome of a survey or an interview done with around 800, around 200 Board of Directors of large companies big excellent and large companies from 8 countries. The consensus came on these for the main responsibilities of the Board of Directors.

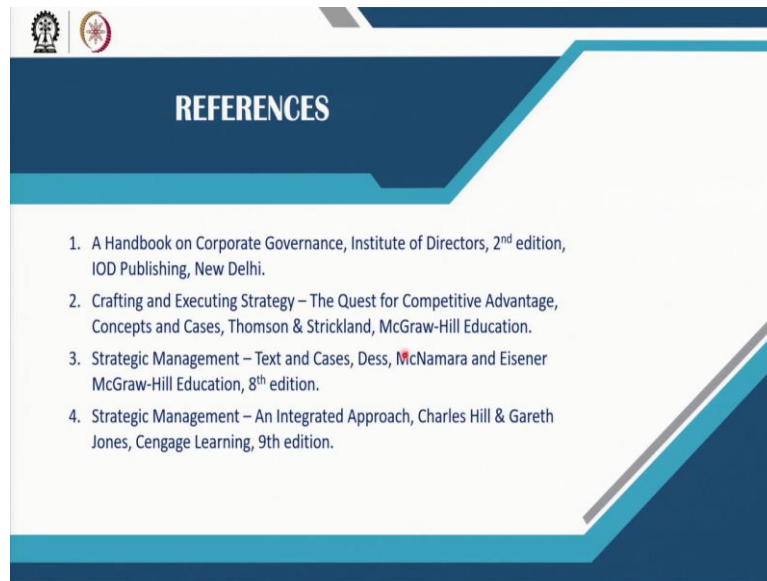
So, these are the consensus points that are being shown. They agreed that the BoD's responsibilities are set corporate strategy and overall directions of the organization, which the company will follow. Then, it is the responsibility of the BoD to hire and fire the top Management. So, this is another their prerogative.

Then another responsibility is Control and monitor top Management. Then Review and approve the use of resources like that resources manpower resources, then mostly financial resources, and technological resources. It would be best always to approve those things from the BoD when your investment is more.

So, it requires BoDs' approval, and the overarching criteria of BoDs' responsibility are safeguarding shareholders' interest which is the primary concern of the BoDs. So, these are some of the duties of BoDs, which are as consensus by the large group of Board of Directors from different countries.

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Now next, concluding to summarize this today's session. So, this module and this session deal with corporate Governance and explains the interface between Governance and Management. It discusses the Board of Directors roles, responsibilities and power in detail. So, these are some of the references you can go through these books, which will help you learn more on this subject. Thank you very much.