

Strategic Management - The Competitive Edge

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Lecture 09

Functions of BoD

We will continue on BoD. The BoD is expected to meet once in a quarter. BoD should not be taken for granted by the Chief Executive. Many chief executives especially the bureaucracy, in the public sector units, try to drive roughshod on most of these boards. So, you take any state government undertaking, the chief executive is more or less a bureaucrat, and many times he will have less or no knowledge of the functioning of that particular organization.

Still, he will be taking decisions, especially with respect to manufacturing or services. So, this has in fact, given rise to so, many debates in the present-day setup that in the liberalized setup, whether it is better to have a professional leadership instead of this bureaucratic leadership, especially for running an organization.

So, articles keep on coming on that and the latest is the Air India story going back to Tatas. One of the reasons which is put out in the press is bureaucratic bungling. So, it always helps to have a professional management for an organization; it can be traced back to this state itself, that is the state of Mysore.

Why did the state of Mysore have such a good development during the period of the Maharajas; because it was having the services of the finest Dewans; they used to guide the Maharaja to take meaningful decisions. One of the stalwarts among these Dewans was Sir M Visvesvaraya, known as Sir MV. In his period, the development of Mysore grew by leaps and bounds.

The BoD is to meet once in a quarter, the quorum is one third of total strength or 2 directors, whichever is higher. But in the present-day context some limitations on BoDs should also be kept in mind. That is, marginally derived expectations, do not expect the BoD itself to run an organization; it may not be possible to remain effective on the technology front always.

It will always help an organization to have professional leadership instead of the bureaucratic leadership. So, many times, if the professional leadership is groomed from within the company, like what Hindustan Lever does or what Telco does, it is a tremendous boost to the morale of the individuals and also to the company morale as well in the marketplace.

Take for example, Tata Steel even when SAIL is not doing so well, Tata Steel is doing so well;

the reason attributed to, is the professional leadership or the professional management of Tata Steel. So, government has to take a cue from all this and ensure in the present day context that you have a professional management to run these organizations; whether- Reliance or Adani group of companies -are having professional leadership in the different companies which are set up by them.

The market growth is one more indicator which the directors on the board of directors of a company have to be aware of- what is happening with respect to the products of the company, how they are performing in the market, what should be done to increase the market share. The next one is divestment and diversification on sound lines.

So, change is bound to happen in an organization. In other words, what is constant is change, better be aware that there will be changes taking place in organizations. And if you are working in an organization you must be ready to adapt to that change. And now, with information technology explosions taking place not only are they coming thick and fast, many times they are misleading also. Long-term productivity and quality should not be sacrificed for short term profitability. As a director on the board of directors, some sagacity is required, how would I have run this, for the next 3 or 5 years, company's products, etc

So, if you look at the IT hardware industry, the amount of change that has taken place is something unimaginable; in fact hardware that is coming for the building industry like different types of floor tiles, is mind boggling eg. granite colours in vitrified tiles. Companies should practice judicious earning retention policy i.e. keep good reserves with respect to companies. A good eg is Infosys- its reserves position has been very good.

Sound human values and exalted corporate culture is expected from the board.

The board should provide strategic management directions, should initiate and determine, evaluate and influence and should monitor. So, the job of the Board of Directors becomes more and more focused when you are looking at strategic management. So, they cannot be just passive spectators. So, if you look at the board of directors in a small private company, it may be two or three when you are looking at a large public company, it may be going up to 10-20 also.

So, there are so many combinations which they look at with respect to the structure of the BoDs. If you look at the multinational companies like Hindustan Lever, ITC etc, you find that the role of the ratio of the whole-time directors to total directors is high. Some of the directors would have come up from within the organization. \

When part time directors' proportion to whole-time directors, in case of L&T and Cisco, ratio is

1 is to 1. Companies go in for part time directors may be because of the standing to provide strategic directions to an organization. So, many times finance companies request eminent people whether he is an academic or professional to act as part time director on the board .

Suppose you have one MD that is one managing director, few WTDs and besides PTDs, it is many times referred to as MD managed company. So, the point that is being made is WTDs and PTDs have complementary roles to play.

There was a committee which was appointed by the government of India in the late 70s to 80s- the Sachar committee, to look at feasibility of 2 tier board, based on the experience of Japanese companies- one was called the policy board the other was called the executive board; Sachar committee did not favour this.

Part time outside Chairman plus a whole time MD, a whole time inside Chairman plus a whole time inside MD or a whole time inside Chairman cum MD are the other types of BoD setup that can be thought of. Companies Act also gives what is the type of remuneration that you should give to the Board of Directors-less than or equal to 5 percent of the net profits, if only one WTD; 10 percent of net profits for all,if more than one.

CEO is responsible to the BoD for overall management. He should be a strategist, an organization builder and a leader; he should keep the flag of the company flying.

The top management should provide direction setting vision, setting standards. Top management generally are positions of General Manager and above. It is not always the CEO who gives the direction. He goes into confabulations with the top management, takes advice or suggestions from them.And then he takes his own decision.CEO has other duties as figure head,information disseminator,disurbance handler, resource allocator and negotiator.

Planning for succession and creation -the CEO's job should be done from within the ranks- best example is that of Tatas only. But IT companies many times look for an outside CEO thinking that it may be more advantageous to have an outside CEO. Egs can be Infosys, Cognizant, Mindtree

Strategic management styles can be highlighted by this figure. It is a 2 by 2 matrix. The degree of involvement by BoDs is on the horizontal, degree of involvement by top management on the vertical. Take for example, the first block that is the Entrepreneurship management- the degree of involvement by the top management is very high, that is perhaps the chief executive, who is calling the shots, the degree of involvement by the BoDs is very low. Suppose the chief executive knows the ins and outs of the organization; he can take decisions and many times will

say I am responsible for the decision I have taken and I will ensure that the decision works. So, this is where you have an entrepreneurship management. Kindly note this is different from the bureaucratic management.

Suppose you have a degree of involvement by top management high, the BoDs degree of involvement is also high, then it is referred to as partnership management. The CEO would like to have directions through the BoD and the BoD also is willing to get involved in the running of the company. it is extremely helpful. You have the expertise and the wisdom of the directors on the BoD available to the CEO and the CEOs himself is proactive and it is very likely that the company will succeed- eg: the automotive industry, coming out with new fuel efficient products, electric vehicles,etc

Suppose, the degree of involvement by the BoD is very high, but low from the top management, it is called stipendiary management, it is a BoD run company. So, the CEO is like a puppet, he is not having any value. Suppose both are low that is the degree of involvement by BoD is low and the degree of involvement by top management is also low then there is no management at all in the company, you can assume that the company is set to doom because this has happened to many public sector companies.

To enhance the BOD effectiveness and organisational viability, Stafford Beer has suggested a 5 step model.

1. various operational units are divisions of the firm, 2. system to various common service departments for better coordination, 3.various specialist directors for synergy of operational units, whether it is marketing, production, finance- it is cutting across operational divisions. Beer refers to this system as inside and now a firm's operations,4. Outside and then for the firm that is corporate planning, R&D, management development, this is he refers to this as development directory,5.monitor integrate systems 3 and 4

A business organization has 4 responsibilities: economic -for survival, legal- for compliance, ethical-for being just, and discretionary. While the first 3 are required, the last one is at the discretion of the company referred to as Corporate Social Responsibility(CSR).

We stop here. We continue in the next class. Thank you.