Indian boards need to focus on strategy—and raise corporate governance standards—to be effective

Is your board working?

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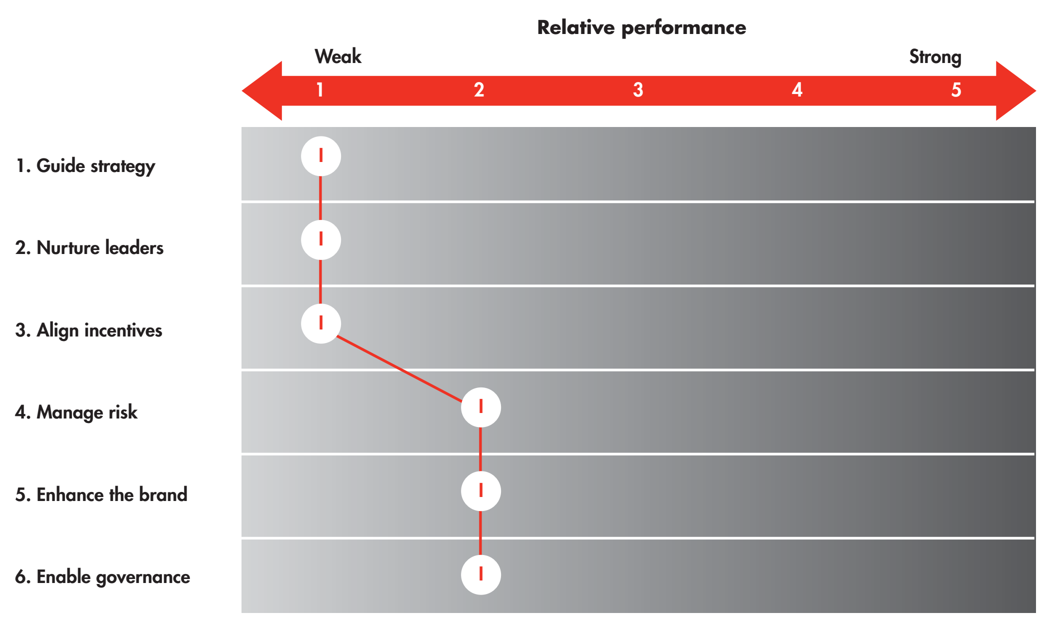
Indian boards need to focus on strategy and raise corporate governance standards to be effective

The best corporate boards challenge and guide companies to achieve higher levels of performance year after year. But they are all too rare. Instead, as the collapse of Enron, WorldCom—and closer to home, Satyam—shows, companies with weak corporate governance hurtle to their demise. While the spectacular failures get headlines, under-performing boards are all too common—and equally dangerous, as they silently erode shareholder wealth over time. According to Bain & Company's research on sustainable value creation, in a global sample of more than 2,000 companies, very few companies consistently performed well. When rated on three criteria for high performance—more than 5.5 percent real revenue growth per annum, more than 5.5 percent real net income growth per annum and creating shareholder value in excess of the cost of company equity—over a 10-year span, only 12 percent of the firms made the cut. The rest faltered.

Strong, effective boards can help companies avoid trouble by making the right decisions at the right time. Boards that play their role well help companies go from strength to strength, over long periods of time, despite disruptive forces like competition, technology or economic turbulence. However, by that measure, many Indian boards currently fall short: most Indian companies need to raise corporate governance standards as a top priority if they are to be sustainable over the long term.

A recent Bain & Company survey in India reveals that even some of the top-performing companies in the country are quite weak in corporate governance when compared with global practices. (See figure 1.) Worse, boards of many Indian companies with global ambitions are simply not keeping pace with the

Figure 1: Indian boards face gaps when compared with global best practice



Note: I = Average board performance of 44 Indian companies surveyed
Source: Bain Corporate Governance in India Survey, 2009

evolving standards in global corporate governance. For example, while Indian boards hardly ever deal with issues such as CEO performance or CEO succession, many US and European boards hold themselves responsible for grooming leadership. Another key difference: most Indian boards seldom systematically analyze the financial and operational risk their companies face. The best US and European boards, on the other hand, now have formal risk-management processes in place, including a whistle-blower policy and an ombudsman.

Bain's Corporate Governance in India in 2009 survey was conducted in association with International Market Assessment (IMA) India and included more than 100 interviews with directors on the boards of 44 prominent Indian companies, across industries. We also interviewed regulators, commentators, analysts and company secretaries to get deep, granular insights into Indian corporate governance. The two-punch message: many Indian companies are vulnerable due to weak corporate governance, and most Indian boards lag in performance compared with global practices. Let's consider these two issues in more detail.

Why good governance matters

Most Indian boards focus more on meeting regulations than proactively protecting the company's interests. The survey revealed that when it came to structures that are regulated by the law, Indian companies tend to be diligent in checking the boxes. As a result, in areas where Indian regulations are on par with global regulations, Indian corporate governance standards too compare well with global standards. For example, the size of Indian boards—typically 11 board members—matches that of the US (average: 11) and Europe (13). Similarly, the average number of times a year the audit committee of an Indian board meets (5) compares favorably with European (6) and US (9) boards.

But compliance is only a small slice of effective corporate governance. (See figure 2.) A board

Figure 2: Effective boards focus on six key areas

1. Guide strategy

- Comply with regulatory and fiduciary requirements
- Contribute expertise and perspectives and play challenger role during strategy development
- Play an active role in evaluating M&A strategy and new ventures
- Assess market dynamics and their impact on strategy

2. Nurture leaders

- Comply with regulatory and fiduciary requirements
- Groom future corporate leaders
- Review and build senior talent pipeline
- Determine ideal board composition and appoint board members with the right board expertise

3. Align incentives

- Comply with regulatory and fiduciary requirements
- Establish corporate compensation philosophy
- Set metrics and assess performance of business units
- Evaluate performance of CEO and top managers; determine appropriate compensation
- Evaluate board performance; link it to compensation and suggest improvements

4. Manage risk

- Comply with regulatory and fiduciary requirements
- Contribute expertise to development of financial strategy
- Evaluate major financial decisions through strategic lens
- Identify key strategic risks and develop a mitigation plan

5. Enhance the brand

- Comply with regulatory and fiduciary requirements
- Leverage networks to mobilize resources needed for strategy implementation
- Assist with positioning of company's image and brand
- Communicate strategy to public markets and investors

6. Enable governance

- Comply with regulatory and fiduciary requirements
- Clarify roles of board members and other governance participants
- Create committee structure and revise as needed
- Establish efficient meeting practices and revise as needed
- Determine the time commitment required from board members

Source: Bain analysis

that is concerned with compliance alone considers its job done when the company meets the guidelines of the country's securities and exchange watch-dog. Such compliance-led boards have little incentive to focus on long-term sustainability issues. A strategy-led board on the other hand, uses regulations as a baseline: it then tries to go beyond and help influence the company strategy and guide it down the path of sustained value creation. On a critical issue like signing off on financials, for example, a compliance-led board might be content asking: "Are we accurately reporting the company's finances?" Strategy-led board members, we find, probe much harder and deeper: "Do we fully understand the financial health and risks of the company? Where should capital be allocated to ensure we maximize shareholder wealth? Is our financial strategy sustainable?" (See figure 3.)

Currently, the survey shows, Indian boards take little interest in strategy. Often, board members are either diffident about challenging top management, or simply not encouraged to comment on issues such as CEO compensation. This lack of strategic support from the board represents a missed opportunity for Indian companies. Globally, there is ample evidence that good corporate governance brings tangible benefits to companies. A report by the International Finance Corporation (IFC) concludes that "well-governed companies often draw huge investment premiums, get access to cheaper debt and outperform their peers." A Deutsche Bank study of S&P 500 firms shows that companies with strong or improving corporate governance outperformed those with poor or deteriorating governance practices by about 19 percent, over a two-year period.

Indian boards need to improve governance standards not just for the financial benefits—but also to avoid the pitfalls of weak board management. Recent corporate scandals have shaken the faith of domestic shareholders. Increasingly, domestic investors, policy makers and shareholders demand that Indian boards play a stronger role in protecting corporate wealth creation. Our survey finds, however, that much more needs to be done before Indian boards make effective decisions. Clearly, the loose standards in governance that led to Satyam's downfall, could also trip up other leading Indian companies.

Indian companies with global aspirations know they must raise governance standards even more urgently. In some areas—such as the membership of board committees—not only are global regulations more stringent, but also, global investors and shareholders expect the board to play an active role in delivering results. This is particularly true after Enron, when regulators around the world became more active and tightened corporate governance requirements. While the US led the charge in 2002 with the Sarbanes-Oxley Act, the wave of stricter regulations rolled right across the world: Canada (2003); France (2003); Australia (2004); Italy (2005); Japan (2006), et al. For Indian companies expanding abroad—the number of Indian companies listed on US stock exchanges more than tripled from 23 in 2005 to 85 in 2008—meeting global standards in corporate governance is not a choice, it's a necessity.

Where Indian boards lag

It is short-sighted to ask "is our board doing enough" or worse, "are we covered?" The real question an Indian company faces is: how can the board help so that there is a sustained, long-term improvement in performance? In Bain's global experience with top-performing companies, the best boards focus their efforts on six priority areas. These are: guiding the company strategy; building the top management team; measuring performance and matching rewards; ensuring financial integrity

Figure 3: Effective boards move beyond compliance to shaping strategy

Compliance-focused board

- Sign-off on corporate M&A activity as required by law or fiduciary duty
- Report on corporate activities/statistics as required by law or fiduciary duty, e.g.:
  - Board composition
  - Compensation
  - Impact on environment/communities
- Sign-off on financial reporting
- Structure board around minimum regulatory requirements

Strategy-focused board

- Guide strategy development and implementation
- Build company leadership
- Align incentives with strategic goals
- Ensure alignment of financial and risk strategy with vision
- Enhance corporate brand and positioning
- Develop board structure and operations to enable strategic impact

Source: Bain analysis

and managing risk; protecting the corporate reputation; and setting up board structures and operations. Within each of these areas, there is a set of key activities and associated decisions which a board needs to master in order to be truly effective. Our work with companies globally shows that if companies focus on shoring up decision-making in just 20 or so key corporate governance decisions—they very quickly begin catching up with global best practices.

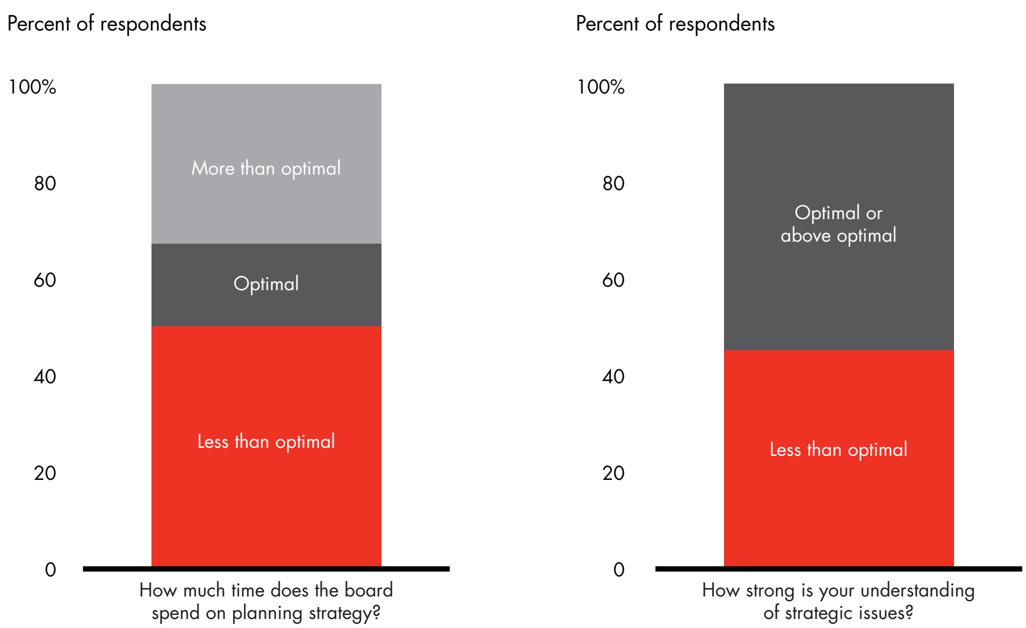
I. Guiding strategy

Globally, the strongest boards play an increasingly proactive role in shaping the strategy of the company. The survey revealed, however, that Indian board members make only informal contributions to strategy—most are in fact, never asked to formally take part in developing corporate strategy. Board members admitted that usually, the only time they delved into corporate strategy was during a merger or acquisition. Otherwise, around 50 percent of the survey respondents felt that their board did not spend enough time planning strategy for the future. In the entire sample, very few companies held an offsite meeting for board members to discuss strategy.

Many board members also raised the concern that they were ill-equipped to comment effectively on strategy: about 45 percent of the respondents felt they did not understand the strategic issues facing their company. At one company, board members were unclear about the key product's positioning in the market. No company in the entire survey had a board-level strategy committee. (See figure 4.)

By not involving the board in shaping strategy, Indian companies miss the opportunity to fully use the valuable experience board members bring to the table. (See figure 5.) Globally, the best-managed companies encourage board

Figure 4: Only half the survey respondents feel they have enough time and context for strategy planning



Source: Bain Corporate Governance in India Survey, 2009

members to contribute expertise and examples from comparable industries they might have worked on. Sometimes, the board even brings in external experts to help them review the company's long-term game-plan. Many boards now also insist on forming a strategy committee. For example, in Europe, 15 percent of the boards surveyed in the 2007 annual Heidrick and Struggles Corporate Governance report had a dedicated strategy committee.

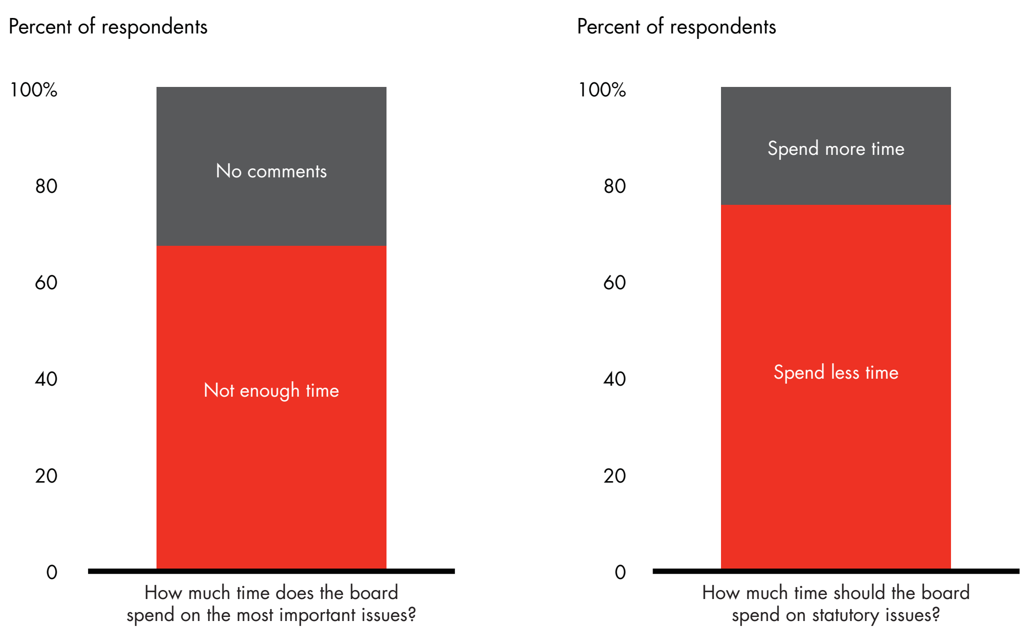
Also, globally, at the best-managed companies, board members play a challenger's role on strategy—unlike in many Indian boards, where board members default to a passive listening role. Usually, in order to ensure that the board is up to speed with strategic issues, companies include an overview on market dynamics on every board meeting's agenda. Our survey revealed that currently, the management of only a handful of companies interact with board members regularly to seek feedback on strategy.

II. Nurturing leaders

Effective boards play a direct role in grooming the company leadership. Globally, boards weigh in on decisions such as selecting the CEO, planning succession and even, building the top management team. In 2008, board members discussed CEO succession at least once a year in more than 60 percent of the S&P 500 companies. At more than a third of the companies, board members addressed the issue more than once a year. In a majority of the S&P 500 companies—more than 80 percent—the board had an emergency succession plan in place.

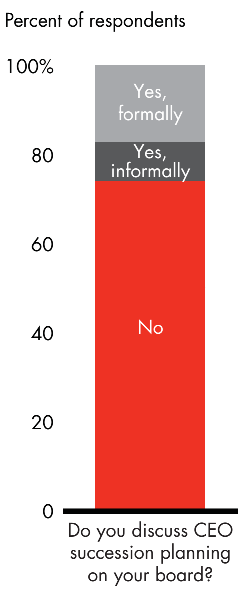
In contrast, board members of Indian companies shy away from company leadership issues and receive little encouragement from the CEO or promoter to do more. More than 75 percent of the survey respondents reported that their board did not discuss CEO succession planning at all. In addition, Indian boards

Figure 5: Indian boards spend a majority of their time discussing statutory issues



Source: Bain Corporate Governance in India Survey, 2009

Figure 6:
Most Indian boards are not involved in succession planning



Source: Bain Corporate Governance in India Survey, 2009

hardly get involved in the professional development of top company leadership. Fewer than 20 percent of the respondents had any formal or informal role to play in planning the CEO's succession. (See figure 6.)

Indian boards also miss out on coaching and developing top executives. We find that globally, the best companies encourage greater interaction between board members and top managers. At many companies, top-level executives are invited to attend the non-executive sessions of board meetings and encouraged to make formal presentations to the board. Through formal and informal means, board members get to know and nurture top talent in the company. At S&P 500 companies, 88 percent of the boards invited senior leaders to make presentations to the board. In contrast, the Bain survey found that very few Indian companies invited business unit heads to attend board meetings.

In a majority of the boards surveyed, we found that Indian board members also did not play an active role in bringing the right leadership and talent on the board by appointing independent directors. Very often, as a survey respondent said: "It is the promoter (founder) of the company who does the head-hunting for independent directors." In our sample, very few Indian companies use a nominations committee to select new independent directors. Instead, in a few instances we found anecdotal evidence that independent directors were actually friends or family members; in one case, the lawyer to the family of the promoter was listed as an independent director.

Companies have to make sure that the board is constituted in such a way that open dialogue takes place, particularly on sensitive issues. If Indian boards are to play a role in nurturing leaders, or indeed, any other priority area, they have to first find an independent voice. One respondent spoke for many, when he told us: "In most board meetings I attend, 70 percent of the directors don't speak at all."

III. Aligning incentives

The best boards play the role of a beacon: no matter how the waves crash or in which direction the winds blow, they help the company stay steadfast on its strategic goals. They do this by setting the right incentives—and monitoring them constantly—for the company leadership as well as for themselves. By linking the CEO's and board's compensation to company performance, the best boards try to ensure that they are constantly protecting long-term shareholder wealth-creation. In Bain's experience, globally, the most effective boards align incentives by taking some practical steps:

- One, they play a direct role in setting corporate compensation by holding regular meetings of the compensation committee, usually led by an independent director.
- Two, they review the performance of business units regularly at every board meeting.
- Three, they are responsible for evaluating the performance of the CEO and top management team and determining their compensation.
- Four, they evaluate their own performance regularly—and create roadmaps for improvement.
- Five, they link board compensation to performance by, increasingly, accepting equity as part of their compensation.

The survey showed that Indian boards do not focus enough on evaluation—the corporate leadership's or their own. (See figure 7.) Board members are involved in CEO evaluation and compensation in just about 20 percent of the companies surveyed—and the involvement is even lesser in promoter-led companies. One respondent said: "Most boards I have been on duck the issue. The CEO is hardly ever evaluated—not unless the company is in trouble." The survey also identified that very few companies in India use a structured process to reward directors.

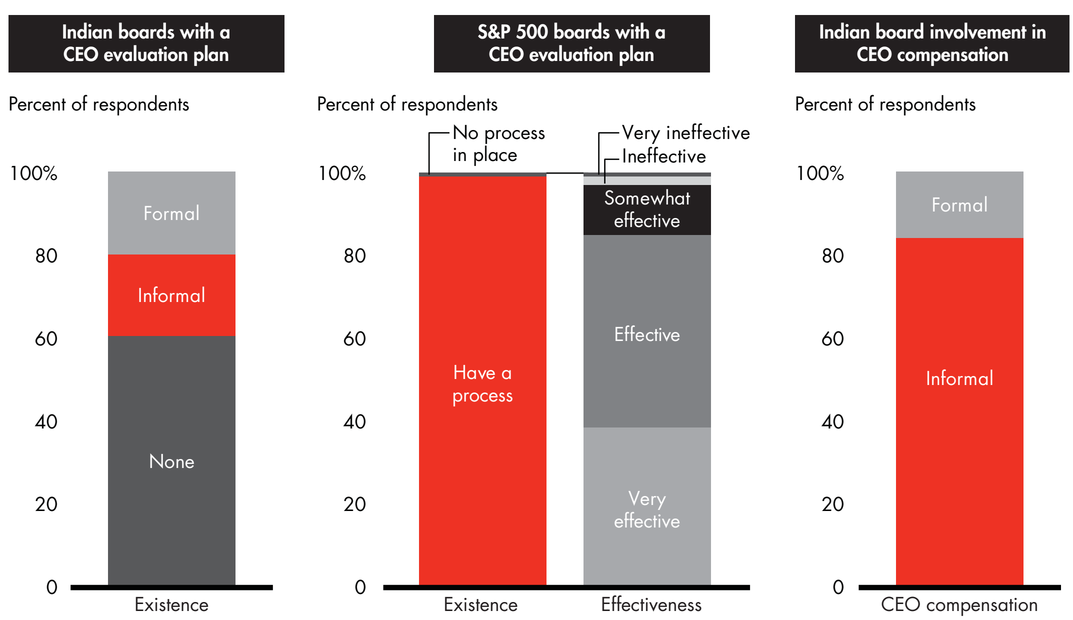
Currently, most top-performing boards in the US and UK undergo a formal board evaluation at least once a year. Indian boards, on the other hand, are not introspective at all: over 75 percent of survey respondents reported that there was no formal board evaluation process on their boards. (See figure 8.) This is in contrast to the UK, where the best-managed boards do a particularly good job of using the evaluation feedback to improve board performance. Sometimes, they bring in outside external advisors to help the board make the right decisions, other times, they use internal mentors.

IV. Managing risk

The best boards know that the only way they can be effective custodians of shareholder wealth is by being constantly vigilant about the financial and strategic risks to the company. As recent global and domestic corporate debacles have shown, board members fail their fiduciary duty most when they take their eyes off the numbers. Globally, the most effective boards are those that play watch-dog and challenger in equal measure: they constantly review operational and financial risks and approach financial statements with a healthy dose of skepticism.

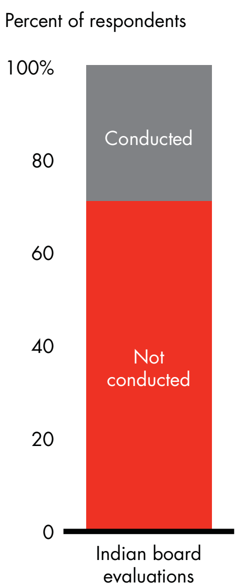
The Bain survey revealed that in many respects, Indian companies try to maintain high standards—but once again, the stress is on compliance with rules, rather than a committed approach to unearthing weaknesses. Several companies in the survey reported that

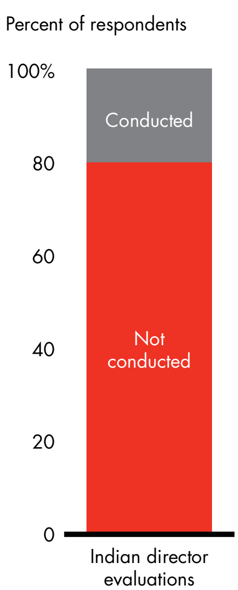
Figure 7:
Indian boards are less involved with CEO evaluations... ...than the boards of S&P 500 companies... ...and Indian boards are rarely involved with CEO compensation



Source: Source: Bain Corporate Governance in India Survey, 2009; Spencer Stuart Board Index 2008 (S&P 500)

Figure 8: Indian boards seldom evaluate themselves





Source: Bain Corporate Governance in India Survey, 2009

informally, they kept tabs on the risks the organization faced—but managing risk was not always formally on the agenda.

Also, the ability to manage financial risks depends on the quality of the audit committee of the board. While many companies focus on the number of audit committee members, or the number of audit committee meetings—that's still just compliance. Rather, the focus needs to be much more on building strong, savvy, independent committees. The survey revealed that the financial expertise of audit committee members was far from satisfactory.

To test this further, Bain studied a random sample of audit committees from the survey pool, in more detail. We found that the average expertise score was just 2.9 on a scale of 1 (limited expertise) to 5 (expert), and that the highest average score was just 3.7. A lack of accounting or financial management expertise on the audit committee not only compromises the board's ability to vet financial decisions, it also impedes the development of a viable risk-mitigation plan.

V. Enhancing the brand

Effective boards guard the corporate heritage. It's their job to inherit the corporate brand and image from the past and make it stronger for the future. That requires constantly monitoring and managing the corporate brand throughout the year—and not just in a crisis. Globally, most well-managed boards have a plan in place for a crisis—with clearly defined roles for board members. We also find that top-performing companies involve board members closely with the communications strategy and use board members throughout the year in different aspects of communications.

The Bain survey in India revealed that while at a time of crisis, Indian board members give themselves high marks for stepping up—there is very little engagement of the board on issues around corporate brand-building or managing the reputation of the company, year-round. For example, board members were seldom reviewed for their contacts and external networks to help the corporate strategy.

The survey also revealed that Indian boards lacked clarity on the rights of different types of shareholders and were resistant to wider representation on the board. One respondent dismissed private equity investors for "their short-term orientation," another found financial-institution nominees to the board "unproductive and to be tolerated." Many respondents rejected the right of minority shareholders being represented on the board. According to one respondent, "There is no such thing as minority shareholder interest, only shareholder interest." For Indian companies diversifying their ownership, this will increasingly be an area of focus. Even if these stakeholders are not given a seat on the board, companies will need to develop a plan to invite their input at the board level.

On the positive side, the survey revealed that Indian boards do see themselves as playing a role in reminding a company of its social responsibilities. This reflects a global trend, where we find increasingly, that board members of top-performing companies help craft the company's corporate social responsibility (CSR) agenda. These companies discuss CSR at least once a year—often more—in board meetings and almost always have a formal CSR strategy in place. Increasingly, we also see top-performing boards help global companies make the right trade-offs on issues like the environment and sustainability—both in terms of the impact on strategy and the impact on stakeholders such as employees and customers.

Setting an agenda for reform

Bain & Company's India survey shows that that there is significant room for improvement in Indian corporate governance. Much of that change will come from within Indian companies themselves—with some choosing to pull ahead of the pack with better board management. However, multiple governance participants have a role to play in increasing Indian board effectiveness. A quick look at who can help improve Indian boards—and how:

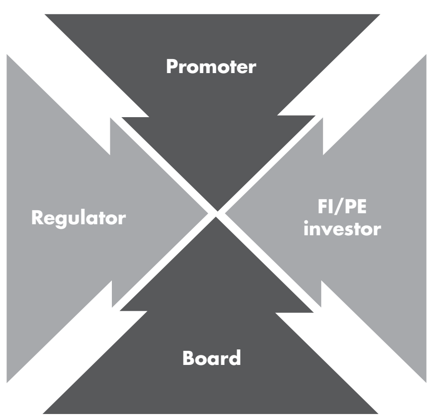
- **Promoters/CEO:** Effective leaders can create effective boards. In India, leading companies will seek to differentiate their corporate governance standards by tapping board members' expertise and encouraging them to contribute on strategic issues.

- **Board members:** By engaging more with strategic issues and refusing to merely check the boxes on regulatory issues, board members can help bring worldclass practices to the boards they serve on.

- **Financial institutions and private equity funds:** Hitherto, investors played the role of silent partners on Indian boards. Increasingly, as the role of Indian boards evolves, investors will need to play a proactive, strategy-shaping role. Most private equity funds are geared to shape strategy in companies they invest in; increasingly, financial institutions will be expected to contribute too.

- **Regulators:** The survey shows that Indian boards do relatively well on meeting the spirit of the law—but is the law demanding enough? Regulators can play a vital role in raising corporate governance standards across Indian businesses. A good starting point for Indian regulators is to review global best practices and choose those that will improve corporate governance without overburdening companies with regulation.

Increased board effectiveness requires assessment and action by multiple governance participants



VI. Enabling governance

Sending out reading material to board members in time, running the agenda efficiently and distributing the minutes regularly—none of these constitutes sufficient governance. Instead, well-managed companies adopt board structures and operations that make it possible for the board to make good decisions and have a strategic impact on the company.

However, the survey revealed a fundamental structural flaw in many Indian boards: board members contribute to decision making only informally. Repeatedly, survey respondents showed a lack of clarity on the role of board members and in most companies there is no well-defined, formal structure for board decision-making. As a consequence, the accountability of Indian board members suffers. When a company is hit with a corporate governance crisis, it is particularly hard to analyze in retrospect who said what and how everyone was led to the final decision. One way to ensure that at least a sub-set of the board is deeply informed about issues is to set up committees based on the strategic needs of the company. The survey showed that currently, the three most common committees on Indian boards are audit, investor grievance, and remuneration. In the future, companies will need to set up more specific committees with the right expertise to tackle issues such as strategy, ethics, and nominations.

At the best boards, there is less ambiguity around decision-making. Board members can play one of five roles in a governance decision. They can: provide "input" to a recommendation; "recommend" a decision or action; formally "agree" to a recommendation; make the final "decision;" or be accountable for "performing" once a decision is made. (See figure 9.) However, the survey revealed that in the case of Indian boards, there is often no expectation of a board role in key governance decisions. And even when the board is invited to weigh in on a decision, it is on an ad hoc basis. The contribution to the decision also varies between board members depending on their relationship with the promoter or the CEO of the company.

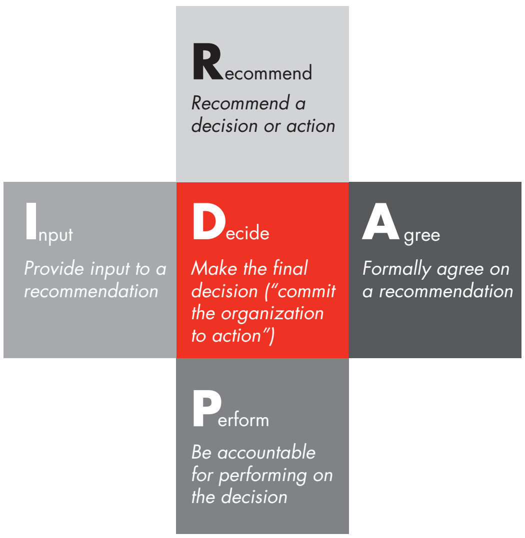
Operationally too, the Bain survey pointed to a significant concern: we found respondents were, on average, on more than four boards each and that 20 percent of the respondents were on more than eight boards each. Given that, on average, board members attended seven board meetings a year per company, the survey reflected the practical limits to which board members can engage in strategic matters. Indian board members not only have less time to prepare for board meetings compared with their global peers, but also, because of the high number of boards they serve on, they have constraints on the number of board meetings they can attend in a year.

Globally, the best boards determine the time each board member will need to commit upfront and set limits on the number of boards they can serve on. In many instances we find companies set these norms based on their needs—and usually, they are far more demanding than the guidelines set by local regulators. In the US and Europe where boards meet on average at least nine times a year, frequently there are strict limits on the number of boards people can join.

Getting started: Diagnosing board performance

Out of all the challenges a company faces, raising corporate governance standards is relatively straightforward to fix. Once the top leadership of the company commits to building a more effective board, the corporate governance standards can rise quickly—sometimes, even between one board meeting and

Figure 9: Effective corporate governance needs clearly defined decision-making processes and roles (RAPID®)



Priority area	Process/role challenge for Indian boards
1. Guide strategy	• Limited formal process for reviewing market dynamics and their impact on company strategy
2. Nurture leaders	• Ad hoc board involvement in CEO succession planning, development of top talent and new board member addition
3. Align incentives	• Limited board role in performance evaluation and compensation decisions • Lack of formal board performance evaluation
4. Manage risk	• Limited formal process for risk assessment and mitigation strategies
5. Enhance the brand	• Ad hoc board involvement in corporate relationship management and commun-ication of corporate strategy
6. Enable governance	• Minimal discussion of decision roles/rights

Source: Bain Experience Center

the next. A good approach starts with a thorough diagnosis of the areas of weak corporate governance, then, shifts to identifying the solutions, and finally, results in a shortlist of the top priorities for change. All three steps are critical to success. (See figure 10.)

Ironically, it isn't difficult to identify the areas of strengths and weakness in a board. One of the most effective ways is to simply ask board members for their views. Companies are often surprised when the self-evaluation by directors and board members contains open and direct feedback on areas that need to be improved: it's as if board members were just waiting to be asked. Once this baseline is established, a company then needs to check how far its board performance differs from regulatory standards and best practice.

Review board compliance with basic regulations and fiduciary duties: Most leaders already know that gaps in these areas are non-negotiable and pose a risk to the company's long-term future. A company wins no special rewards for compliance; it is quickly punished for non-compliance. The first step is therefore to make sure that the company currently meets all the regulations and guidelines in the letter—and spirit—of the law.

Review board performance in strategic areas: By evaluating its performance against best practices in each priority area for the board, a company can quickly identify the areas of weakness and strength. Bain's Board Diagnostic Toolkit for benchmarking board performance starts with best practices in each of the six priority areas and then ranks a board's performance on a scale of 1 (weak governance with next to no best practice) to 5 (strong governance which matches world-class standards). (See figure 11.) In terms of enhancing the brand, for example, a global best practice Bain

Figure 10: Effective governance: In three steps

Conduct board diagnostic

- Identify key participants in corporate governance
- Assess current board practice
  - Review current board compliance with regulations and fiduciary duties
  - Evaluate quality of board contribution to strategic priority areas
    - » Map current decision-making processes; identify current roles played per corporate governance participant (using RAPID)
    - » Compare board operations to global best practices
- Set a baseline via board and director self-evaluation

Prioritize opportunities

- Categorize gaps to be resolved
  - By impact on performance
  - By level of change/investment needed for resolution
- Agree on prioritized list of opportunities

Develop roadmap for improvement

- Finalize initiatives and milestones for each opportunity
- Develop immediate next steps and implementation plan

Source: Bain Corporate Governance in India Survey, 2009

has observed is that well-managed companies develop a clearly defined communications plan with clear roles and responsibilities for board members, all year round. The toolkit tests if a company's board has such a plan in place—and if the plan is communicated to stakeholders and public markets—on the scale of 1 to 5. Similarly, by working through all six areas, the company has a clear diagnosis: an objective assessment on where it stands versus global best practice in corporate governance.

Clarify key governance decisions requiring board involvement: The board does not have to weigh in on all decisions—but often the board ends up ignoring the most important decisions. A company therefore needs to be very explicit on when it needs what from board members: at times full engagement and decision-making, at times, just recommendations, and at other times, simply to provide input based on their expertise. Similarly, board members must be very clear on when they need to play what role, since it may change at different points in the decision-making process.

A tool we call RAPID® clarifies accountabilities for each part of these decisions. RAPID is a loose acronym for the key roles in any major business decision. The individual or team responsible for a *recommendation* gathers relevant information and comes up with a proposed course of action. People with *input* responsibilities are consulted about the recommendation. They help shape a recommendation so that it is operationally practical, financially feasible, and so on. An executive who must *agree* is anyone who needs to sign off on the proposal—often a legal or regulatory compliance officer. Eventually, one person *decides*—this person "has the D." The final role in the process involves the people who will *perform* or execute the decision.

Figure 11: Diagnosing and improving corporate governance in one key area: guiding strategy

Key board activity	1 Weak 0% Best practice	2	3	4	5 Strong 100% Best practice
Contribute expertise, outside perspectives and provide challenge role during strategy development process	• Board plays no role in strategy development process • Board "rubber-stamps" strategy without full consideration of implications	• Board contributes experience to strategy development • Utilizes external consultants as needed • Board "rubber-stamps" strategy without full consideration of implications	• Board contributes experience to strategy development • Utilizes external consultants as needed • Full board review of strategy for alignment with company goals and vision	• Board contributes experience to strategy development • Utilizes external consultants as needed • Full board review of strategy for alignment with company goals and vision	• Board contributes experience to strategy development • Utilizes external consultants as needed • Full board review of strategy for alignment with company goals and vision
Play an active role in evaluating M&A and new ventures	• No (or minimal) role of board in M&A target assessment • No (or minimal) role of board in assessment of new business ventures	• No (or minimal) role of board in M&A target assessment • No (or minimal) role of board in assessment of new business ventures	• No (or minimal) role of board in M&A target assessment • No (or minimal) role of board in assessment of new business ventures	• Full review of M&A targets to ensure alignment with company's strategy • Full review of new business ventures	• Full review of M&A targets to ensure alignment with company's strategy • Full review of new business ventures
Assess market dynamics and their impact on corporate strategy on a regular basis	• Board does not review market dynamics and their impact on strategy	• Board does not review market dynamics and their impact on strategy	• Board does not review market dynamics and their impact on strategy	• Board does not review market dynamics and their impact on strategy	• Formal process for regular review of market dynamics and strategy

Source: Bain Diagnostic Toolkit

The Bain RAPID decision framework establishes clear roles and accountabilities and ensures that stakeholders are appropriately aligned—and is particularly helpful in reducing ambiguity in the boardroom. In a key decision, such as formulating a three- to five-year strategy for example, based on the *input* from sources like the chairman or the promoter of the company, the CEO must *recommend* a strategy to the full board. A sub-set of the board, perhaps the strategy committee, then must go through the three- to five-year strategy in detail, vet it for risk, and *agree* that it makes sense to go ahead with the strategy. The full board must then *decide* on adopting the game-plan within a prescribed time-period. We find there are 20 or so key decisions like these where board members need to have complete clarity on what is expected of them.

While a tool such as the Bain Board Diagnostic is a necessary first step, companies must also clearly lay out the steps needed to address key gaps. While defining the most-important actions to take, companies usually consider two factors: first, the impact on performance and second, the investment in time and effort needed to fix the problem. A company needs to be very practical in its approach while building the list of things it needs to improve. Rather than trying to boil the ocean, companies are better off planning board improvements in steady 'waves' of change. At one company, for example, it was a shock to the management that the expertise on its audit committee was below par and that audit meetings were too short for board members to fully understand financial risks and discuss strategy for protecting the company. A quick solution for the company was to increase the number of audit committee meetings from four to six. However, a longer-term priority became drafting more qualified board members.

There are many reasons for a company to invest in corporate governance: reduced risk of fraud, reduced volatility in share prices, access to cheaper capital or increased shareholder return. We find that whatever the starting point, the end point is usually the same: pleased shareholders, more committed board members, more confident top management teams and interestingly, more satisfied employees. In our experience, good governance seldom stops at the boardroom—it percolates across the company and goes straight to the bottom line.

Notes

Notes

Bain's business is helping make companies more valuable.

Founded in 1973 on the principle that consultants must measure their success in terms of their clients' financial results, Bain works with top management teams to beat competitors and generate substantial, lasting financial impact. Our clients have historically outperformed the stock market by 4:1.

Who we work with

Our clients are typically bold, ambitious business leaders. They have the talent, the will and the open-mindedness required to succeed. They are not satisfied with the status quo.

What we do

We help companies find where to make their money, make more of it faster and sustain its growth longer. We help management make the big decisions: on strategy, operations, technology, mergers and acquisitions and organization. Where appropriate, we work with them to make it happen.

How we do it

We realize that helping an organization change requires more than just a recommendation. So we try to put ourselves in our clients' shoes and focus on practical actions.

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