

Headline: It's Not About What, But How

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COMPANY MANAGEMENT

It's Not About What, But How



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There's a common perception that 'professionally managed' companies are far better institutions than 'promoter-run' companies — in terms of governance, protection of stakeholder interests, as well as being a more rewarding work environment where independent thought and open communication are encouraged. While in theory — and in some places — this is certainly true, it is equally true that depending on the CEO and board structure, there are quite a few examples where this is simply not the case.

A common criticism of promoter-run organisations is their centralisation of authority, lack of powers to managers to make decisions, and

decisions taken that do not protect minority shareholders.

But there are numerous examples of companies that are 'professionally managed' where CEOs are as authoritarian as promoters; where there is limited scope for open debate and discussion with professional colleagues; where governance, transparency and trust are weak; and where boards are either oblivious to how the CEO is viewed by the senior management and the broader organisation, or they merely turn a blind eye because of the relationship with the CEO. Insecurities of CEOs and their 'use' of the organisation for personal aspirations and objectives to the detriment of the organisation are also evident.

As a corollary, there are examples of some promoter-run companies that are structured in a way that the virtues of professional management are incorporated, are better run than professionally managed companies, and provide a better work environment to their employees.

In my experience, both domestically



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Broke? But we're professionally managed!

and internationally, it is not so much about whether an organisation is promoter-run or professionally managed, but more about the values, work ethic, trust, board structure and involvement of independent directors that ultimately determine the quality of the organisation.

For an organisation to deliver for all stakeholders, it is important that governance structures are well thought

through with appropriate delegation of authority; that there be an independent evaluation of the CEO by the board — which goes beyond delivery of numbers and also focuses on the softer aspects of trust and values in building a sustainable organisation; that the powers of the CEO are balanced; that 'independent directors' are truly independent and take a keen interest in the organisation devoting the time required to discharge their obligations diligently; and that there is a regular evaluation of performance of the board and independent directors.

Board members should also develop a better understanding of the organisation, challenges and issues through greater interaction with senior management. There are very few organisations in India that would meet the benchmarks of being truly professionally managed where all stakeholder interests are protected.

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