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Boards on a rescue mission

It is no longer business as usual for corporate boards - board members are now increasingly in the line of fire. Recent instances at Infosys, the Tata group and now ICICI Bank and Axis Bank, have created a new imperative for boards – to protect their companies' reputation. IiAS believes for boards to gain the investors trust, they must be must be clear, proactive and transparent in their communication to stakeholders.

Boards are the new custodians of their companies' brand equity, whether they are prepared for this role or not. In an environment where stakeholders have little patience for corporate excesses, and an unrelenting media that has become the new watchdog, boards need to be better prepared, and proactive in protecting the reputation of their companies. More so, given that even a hint of unease at the company makes investors nervous, which can have an enduring impact on a company's market capitalization.

Investors in Indian companies regularly complain about not having access to the board, especially the audit committee. To ensure that stakeholders support the company in times of controversy, boards must make the effort of building trust. For this, IiAS recommends that boards begin proactively communicating with stakeholders (which is also a recommendation of the Kotak Committee). In rechristening the investor grievance committee to a stakeholder relationship committee, regulators too believe boards hold the primary responsibility towards stakeholders Therefore, boards must follow this regulatory intent to begin meeting investors, lenders, and other major stakeholders.

Boards must be transparent in their communication and clearly answer investor concerns. Establishing better transparency will mean ensuring that appropriate processes are followed, and that relevant facts are disclosed. While ICICI Bank's board has backed the CEO amid the recent allegations, its response has been compliance-driven and regulatory in nature, which has done little to assuage the market. Nor has the board disclosed the process it followed in investigating the charges. The board's weak defence has meant that the story continues to fester. Contrast this to the Infosys' board's reaction when its CEO Vishal Sikka was accused of wrong-doing in the Panaya transaction. Infosys' board hired a well-reputed US-based law firm to run an independent investigation, which vindicated the board and the company's CEO. Independent of the continuing onslaught of accusations by one of its promoters, Infosys' board was able to maintain its own reputation and convince a larger audience.

Boards must also have a keen understanding of the criticality of the issue. Taking a specific event lightly may result in a more enduring impact on investors' perception of the board's governance practices. Given the current controversy regarding its CEO, investors prefer to hear a response from the Axis Bank's board. More so, given that investors first learnt about RBI's concerns over the reappointment through a media scoop, rather than from a controlled communication from the bank. Unfortunately, the bank's response (which was filed with the exchanges) was legal and did not address stakeholders' obvious questions.

A timely response to events that cause reputation risk is of utmost importance. Nestle India's board, for example, took too much time in responding to the allegations on product quality, which resulted in their brand image – and the stock price – plummeting rapidly. It then needed the global board to contain the reputational damage and fly down to India to show its seriousness. To that extent, this time, ICICI Bank's board reacted in a timely manner by addressing the market noise.

Whether intentionally or otherwise, board members are staking their individual reputations in taking up the mantle to protect a company's reputation. Although M K Sharma addressed the media on the allegations surrounding ICICI Bank's CEO, in not addressing the investors' concerns and in cutting the conference short, he has done more of a disservice than helped matters. This is in sharp contrast to Infosys, where board members bore the brunt of the media onslaught.

Because the perception of impropriety is usually more damaging than the reality, boards need to provide access and have a credible voice to counter allegations. Some voices are stronger than others. Narayan Murthy's reputation was stronger than that of the then board, but Nandan Nilekani's return quelled the public spat at Infosys almost immediately.

Boards have become the first – and the last – line of defence for reputation risk. For their voice to be effective, it is imperative that board members remain actively engaged with stakeholders and become proactive by pre-empting public furore.

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