CHAPTER IV

ASSESSMENT OF PERFORMANCE OF THE BOARD OF DIRECTORS OF IOB

It was possible for a corporation to go about its business without planning for the advancement in technology that were not directly related to its products or services till recently. Those times are gone forever. Anticipating technology change is now a top corporate priority. High-tech firms are especially hard-pressed to keep one step ahead of developments in their fields.

As the pace of technological change quickens, even organizations with technology units have trouble in anticipating the changes. Harvard Professor Oscar Hauptman contends that today’s businesses are “aiming at a moving target”. Many firms decentralize as a way to improve long-range planning to keep in range.

The cost of keeping up with change is quite high no matter what procedure is followed, and careful environmental scanning and long-range planning become more critical every day. (Source; Wall Street Journal, June12, 1987, pp33.34D)

Plans are classified

➤ Purposes or missions
➤ Objectives
➤ Strategies
➤ Policies
➤ Procedures
➤ Rules
PLANNING PROCESS

Planning is a way of life. It is a way of organizational life. Every person plans, as does every organization, but every planning effort is unique to the planner and the situation. Planning begins with a goal or an end-state or targeted outcome that the organization wishes to achieve. A plan is the means devised for the achievement of the goal. The development of plans may be both formal and informal. Informal planning is the intuitive reaction to a situation. While formal planning is a structured process of investigation and action. Planning is defined as a comprehensive two-stage process of

(1) creating a futuristic frame of reference from which to see opportunities and threats that lie in the future can be expected and

(2) taking action to exploit the opportunities and to provide protection against the threats.

The planning can be as follows:

- Future-oriented-The successful manager must look into the future in order to determine what needs to be done and how it must be done before the situation actually occurs.

- Decision-oriented-The planning process involves decision making that specifies action necessary to achieve future end-states and
Goal-oriented- The planning process is focused on those efforts necessary to achieve future end states.

By identifying what must be done and how it must be done planning sets the stage and becomes the very foundation for the other key managerial practices of organizing, leading and controlling.

The beginning point for the process is the determination of the organization’s mission, which depicts its purposes, premises, values and directions. Once the mission statement is formalized the planning process becomes a parallel flow of stated goals and the plans for their achievement. The mission statement sets the stage for strategic goals and tragic plan which become the primary inputs for the establishment of tactical goals. Subsequently tactical goals and the original strategies plans determine the basic nature of tactical plans. Similarly the tactical plans and tactical goals help determine operational goals. Tactical plans and operation goal shape operational plans. Finally organizational goals and plans at all three levels serve as sources of feedback for future planning activities.

ORGANIZATIONAL GOALS

Every organization has goals. Goals are the fabric that gives the organization meaning. Goals determine the course of the future.

THE PURPOSE OF ORGANIZATIONAL GOALS

Organizational goals serve a number of valuable purposes. They are
**SOURCE OF GUIDANCE**

Organizational goals provide a much-needed source of guidance and a sense of unified-direction. They focus managerial attention on the critical end-states to be achieved and they direct efforts toward their achievement. With well-stated goals the members of the organization have a good understanding of where the organization is heading and how it is going to get there. Goals help people understand and remember what is important and why certain tasks, although they may be unpleasant, are necessary.

**AIDS TO PLANNING**

Just as goals tend to guide direction, they facilitate the difficult task of organizational planning. Good planning is dependent upon good goal setting or, putting it another way goal setting facilitates good planning, and vice versa.

**AIDS TO DECISION MAKING**

The Process of goal setting provides a clear definition of what the organization wishes to accomplish. In the process it provides the management team with the rationale necessary to make consistent and interrelated decisions that assure that the organization’s policies, procedures, and rules will be compatible with the desired outcomes.

**SOURCE OF MOTIVATION**

Goals that are clear and challenging can serve as strong motivators to spur the performance of all organizational members. Once the goals are understood, they may
become a source of motivation and commitment to the organization and what it attempts to achieve. Members may put in extra effort in order to help the organization reach its goals, especially if individual rewards can also be achieved at the same time.

**AID TO CONTROL**

Goals serve as consistent and challenging standard against which one controls organizational activity. Goals define the outcomes that are the standards against which actual outcomes can be evaluated. They serve as a valuable standard for performance assessment and reward. In this manner goals provide a valuable control mechanism to ensure that organizational efforts effectively achieve the desired goals.

**KINDS OF GOALS**

A typical business organization needs to establish many goals at the organizational level, organizational area and at time frame. Organizational goals exist at each of the four basic organizational levels. That is, each business needs to define mission and goals such as strategic, tactical and operational.

**MISSION GOALS**

An organization’s mission is a statement of its basic reason for existence and should be stated in eternal human terms. Too many firms define their fundamental mission in terms of product. The basic mission statement should be directed towards the satisfaction of a human needs that always exits.
STRATEGIC GOALS

Strategic Goals are broad Statements defining where the organization chooses to be at some point in the future. They are establishment for the overall organization as opposed to divisions or departments. Sometimes called official goals strategic goals are established by top management and reflect their intentions of what the organization is to accomplish.

TACTICAL GOALS

Tactical goals are established by middle manager and focus on how to operationalize organizational efforts necessary to achieve strategic goals. They define the target result for operating divisions and / or departments to achieve for the total organization to realize strategic goals achievement.

OPERATIONAL GOALS

Operational goals are established by lower – level manager and they set forth the specific goals that are to be accomplished by department, work groups and individuals. Of all the organizational goals, operational goals tend to be most specific and measurable.

AREAS

Goals must also be established for the different operational areas of the organization. For example marketing company must have goals with respect to market standing, public image, and customer service responsibility. A manufacturing company needs to establish goals for the operations, quality control and research and development,
product design, development and productivity. Certainly all business organizations are in need of goals regarding human resource development and management.

MANAGERIAL DECISION-MAKING

Management is concerned to a great deal with the making of decisions. Some way argue that decision making is synonymous with management. At every turn in the management process, the manager must make decisions—many decisions and diverse decisions. The manager’s day is spent largely in facing one crisis after another by making one decision after another in a continuous but fragmented manner that accounts for much of the stress experienced by managers. Making good decisions is not only important but also essential to managerial success.

DECISIONS AND DECISION-MAKING

A decision may be defined as a choice made from available alternatives. When the poor, bear used a pole to save his friend, the baby kangaroo, he made a decision—he made a choice from among the available means for rescuing his friend. Too many people make the mistake of believing that making the choice is the essence of decision making, when it is only one element of the process. There are at least four decision-making activities. First, the manager identifies the existence of a problem or an opportunity to improve a situation. Second, the manager generates a set of alternate courses of action. Third, the manager selects one of the alternatives. Finally, the manager implements the selected course of action.
DECISION-MAKING AT THE MANAGERIAL LEVEL

The types of decisions that a manager is asked to make are dictated, to a large extent, by the manager’s level in the organization’s hierarchy. Non-programmed decisions that reflect rare and complex situation with much uncertainty are most likely made by top management. At the broadest level, these are strategic decisions that prescribe corporate policy, long-term planning, and the proper positioning of the organization in its expanded environment. As the degree of certainty improves, the level of complexity declines, middle management is found making managerial or tactical decisions that articulate how an organization is to integrate its internal environment in the process of achieving the strategic goals set by the top management. Finally, programmed-decisions are generally made at the lower levels of management. These operating decisions tend to be routine, repetitive, simple and existing in states of relative certainty, and they are usually delegated to the managers at the lowest possible managerial level.

The level at which certain decisions are made and the degree to which decision making is shared between top management and their subordinates in different countries often influenced by the nation or culture in which the situation exists.

POLICY-MAKING IN NEW MILLENNIUM

Policy-making is getting complicated, as the number of variables impinging on policy-making is becoming increasingly complex. This can be attributed to an increase in the magnitude and direction of various impinging factors. Besides, globalization, privatization and competitiveness have made policy-making more difficult.
Modern technology has the potential to make available to the policy-makers the knowledge in a comprehensive and intelligent manner. With the proliferation of information technology and electronic access to information, the availability and accessibility of information has undergone a profound change. E-mail, inter-net and World Wide Web (www) are easy access to remote data base. We now have new opportunities to find information at a press of the computer key.

“Richard Elmore has identified four distinct institutional models, which describe alternative approaches of implementation process:

1. “The System management model” views implementation as an ordered and goal directed actively;
2. The “bureaucratic process model views implementation as a mere routine process of continuing direction;
3. The “organizational development model” views implementation as participatory process in which implementers shape policies and claim them as their own and
4. The “Conflicting and bargaining model” views implementation as a conflict and bargaining process. This model is based on the principle of circulation”1.

Policy should not remain only on the paper without yielding any results, or subjected to inappropriate implementation. What can be done to ensure that policy implementation is as per the requirements of policy decisions?

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1 Sherlekar, Management Techniques: Principles and Practices, Sultan Chand & Company p- 62
COMMITTEES OF THE BOARD IN INDIAN OVERSEAS BANK

The Board has constituted the following committees which provide specific and focused governance in important functional areas and to oversee the affairs of the Bank. The minutes of each meeting are subsequently placed before the next meeting of the committee for its confirmation and the confirmed minutes are placed before the Board in the subsequent Board meeting for recording.

1. MANAGEMENT COMMITTEE OF THE BOARD (MCB)

Management committee of the Board is constituted as per the provisions of the Nationalised Banks (Management and Miscellaneous provisions) scheme, 1970. The functions and duties of MCB are as under:

- Sanctioning of credit proposals (funded and non-funded)
- Loan and Interest compromise / write off proposals.
- Proposals for approval of capital and revenue expenditure.
- Proposals relating to acquisition and hiring of premises including deviation from norms for acquisition and hiring of premises.
- Filing of suits / appeals, defending them etc.
- Investments in Government and other approved securities, shares and debentures of companies, including under-writing.
- Donations
- Any other matter referred to the Management Committee by the Board.

The committee met 13 times in the year 2006-2007. All the meetings were conducted with proper quorum and without any adjournments.
2. AUDIT – COMMITTEE OF THE BOARD (ACB)

The Audit committee of the board has been constituted by the Board of Directors as per the instructions of the Reserve Bank of India and consists of five members comprising Executive Director, Government Director, RBI director and two non-official directors of whom one is a Chartered Accountant. The delegated functions and duties of the ACB are as under:

- To provide direction as also oversee the operation of the total audit function in the bank. Total audit function will imply the organisation and quality control of the internal audit and the inspection within the Bank and follow up on the statutory / external audit of the Bank and the inspections of RBI.

- To review the internal inspection / audit function in the bank the system, its quality and effectiveness in terms of follow-up and also the inspection reports of specialized and extra large branches and all branches with unsatisfactory rating.

- To obtain and review half-yearly reports from the compliance officers of the functional areas.

- To review and follow-up on the report of the statutory audits and all the issues raised in the Long Form Audit Report (LFAR) and interact with the external auditors before the finalization of the annual / semi-annual financial accounts and reports and

- To review and follow up all the issues / concerns raised in the inspection reports of RBI.

This committee specially focuses on the follow up of:

- Inter-Branch Adjustment Accounts.
- Un reconciled long outstanding entries in Inter-Bank Accounts and Nostro Account.
- Arrears in balancing of books at various branches and reconciliation of SGL and
- Frauds and other major areas of house-keeping.

The following additional rote functions / powers have been entrusted to ACB in terms of SEBI committee on corporate Governance guidelines issued by RBI to Indian commercial Banks listed on Stock Exchanges:

- To Investigate any activity within its terms of reference
- To seek information from any employee
- To obtain outside legal or other professional advice and
- To secure attendance of outsiders with relevant expertise, if it considers necessary.

The role of Audit committee shall also include the following in addition to the existing role function:

- Overseeing of the company’s financial reporting process and disclosure of its financial information to ensure that the financial statements are correct, sufficient and credible.

- Reviewing with the Management the financial statements with special emphasis an accounting policies and practices compliance of accounting standards and other legal requirements concerning the financial statements.

- Reviewing with the Management, external and internal auditors, the adequacy of internal control systems.
- Reviewing the findings of any internal investigations by the internal auditors into matters where there is suspected fraud or irregularity or a
failure of internal control systems of a material nature and reporting the
matter to the Board.

- Discussing with external auditors before the commencement of audit the
  nature and scope of audit as well as having post audit discussion to
  ascertain any area of concern and

- Reviewing the company’s financial and Risk Management Policies.

The committee met 14 times during the year 2006 – 2007. All the meetings were
conducted with proper quorum and without any adjournments.

3. NOMINATION COMMITTEE

Banks usually constitute a Nomination committee for recommending the
appointment of independent / non-executive directors on the Board of the Bank. The
Nomination Committee scrutinizes the nominations for independent / non – executive
directors with reference to their qualifications and experience. For identifying, ‘Fit and
Proper’ persons, the committee adopts the following criteria to assess competency of the
persons nominated:

- Academic qualifications, previous experience, track record and
- Integrity of the candidates

Features like criminal records, financial, position, civil actions undertaken to
pursue personal debts, refusal of admission to and expulsion from professional bodies,
sanctions applied by regulators or similar bodies and previous questionable business
practice are considered for assessing the integrity and suitability.

4. RISK MANAGEMENT COMMITTEE

This committee has been formed as per the guidelines of Reserve Bank of India
on the Asset liability Management / Risk management systems. The committee develops
Banks credit and market risk policies and procedures, verifies adherence to various risk parameters and prudential limits for treasury operations and reviews its risk monitoring system. The committee also ensures that the Bank’s credit exposure to any one group or industry does not exceed the internally set limits and that the risk is prudentially diversified. It provides oversight of the senior managements activities in managing credit, market, liquidity, operational, legal and other risks of the bank. This role should include receiving from senior management periodic information on risk exposures and risk management activities.

The chairman of the committee is the Chairman cum Managing Director (CMD) of the bank. The committee met 4 times during the year 2006 – 2007.

BOARD

UNITARY VS. TWO-TIER BOARD

There are two types of board structures across the world, viz., unitaty board and two-tier board. The unitary form of board is common in the U.K. and the Common wealth countries. The-two tier boards are in use in countries like Germany, Austria, and Argentina etc. In erstwhile colonies ruled by European nations other than the U.K. two-tier board is popular. The unitary structure is the most popular board structure in the Anglo-American model. Similarly the two-tier structure is extensively adopted under the German model of corporate governance.

The Cadbury Committee, which was set up in the U.K. in May, 1991 by the Financial Reporting Council, the London Stock Exchange and the accountancy profession to address the financial aspects of corporate governance, fortunately or unfortunately, dealt with in detail the board structure. The committee concentrated much on the board purpose and functioning. Therefore a few questions arise regarding the suitability or modification of the existing board structure; Is the form of unitary board well equipped to fulfil the role of the board in corporate governance? Will two-tier structure enhance the efficiency of the board by removing the defects of the existing board structure?
Under the two-tier structure, the upper tier, known as supervisory board, supervises and reviews the functioning of the lower tier, which is known as a management board. The management board looks after the day-to-day management. It frames the policies and strategies. Normally membership is restricted to any one of the boards whereas under the unitary structure, only one board is in existence. The day-to-day affair of the business is carried on either by an individual or committee under the supervision of the Board of Directors. The powers of the management are usually delegated to a single individual. The Companies Act, 1956 permits the delegation of power by the board either to a managing director or manager. The managing director or manager chooses his own team and runs the show. The directors of the board also can participate in the day-to-day business. Thus an individual can be a member in the board as well as in the management team. Dual representation is not generally forbidden under the unitary board structure unlike the two-tier board.

The two-tier structure, though theoretically attractive, has serious flaws. This structure keeps the supervisors at a distance from managers whose performance they are supposed to monitor in practice. Hence the structure can review the operations in an unbiased manner. However in reality supervisory Boards do not meet frequently and act slowly. They are often not kept informed. Though they have the right to demand additional information and to make certain management decisions conditional on their approval, these rights are seldom used. The reason is that, the members for the supervisory board are usually recommended by the management board. Hence the accommodation of a member in the supervisory board is in the hands of the management board. Therefore the review is biased as well as ineffective. Similarly in the countries where the unitary board structure is followed, a great debate is going on about the efficacy of the unitary board. Though such boards have the advantage of cohesion, they are not designed to deal effectively with conflicts of interest or with reviewing performance. The need for training has not been adequately addressed in such boards. It should be a requirement. However the two-tier model as such, the model is not problem-free. The legal responsibilities of all directors should remain the same otherwise the non-
executive would become a form of second-class director which would not be in shareholders’ interest. Moreover such new-structure may be different only in form rather than in substance. Whether in unitary board system or two-tier system, the top tiers, the supervisory board in Germany and the directors under the unitary board model tend to let effective control slip out of their hands. The seconds tier’s eager CEO, and the equally eager counter-part of German Vorstand, assume control by default of the first tier. Even when the first-tier retains the control, it too often gets into ineffective hands.

The primary difference between the Anglo-American model and the German model is that the latter provides for representation to the employees in the board whereas it is not mandatory in the former. The German corporate boards have been practising the concept from the early days, i.e. as early as 19th century. The issue of labour representation in the board is not a settled matter even in such countries. Though a legislation was passed in 1976 empowering labour representation in the board, it has become a subject of litigation in the court of law. Then the West German highest court reiterated that the near-equal labour voice on supervisory boards of large companies does not infringe on the property rights of shareholders because they still have a slight voting edge i.e., Chairman’s casting vote. “Whole giving the unions a big victory, West Germany’s highest court also left the door open for further action if the supervisory boards don’t function as hoped. If, however the existing legislation isn’t adequate to safeguard effectively the independence of the boards, it will be up to the lawmakers to provide a remedy. Therefore adoption of the Germany model as such in a country, whether they follow the unitary structure, will create problem in switching over. When the labour representation is not yet settled in a country, it is not possible to give labour representation at the board level even in the public sector enterprises. The irony is the constitution’s directive principles insist upon labour representation.

Thus structure is not important. Even in unitary board, non-executive directors may act effectively both as team mates of the executives and their referees. The moot question is can we have enough numbers of ‘good quality and genuinely independent’ non-executive directors. Companies will be able to induct genuinely independent
directors provided appointment are made not on the basis of ‘old school tie network’, the prevailing current practice in our country as well as our mentor, viz., the U.K.

**TYPES OF BOARD**

The National Association of Corporate Directors (NACD) defines the purpose of the board as follows. “Corporate Governance ensures that long term strategic objectives and plans are established and that the proper management structure (organization, systems and people) is in place to achieve those objectives, while at the same time making sure that the structure functions to maintain the corporation’s integrity, reputation and responsibility to its various constituencies”.2 The definition is purposely broad in scope because it must cover a great variety of boards, most of which change and adapt over time. The NACD groups all boards into four functional categories to illustrate this variety which are as follows:

- Minimum boards meet only to fulfil statutory requirements.
- Cosmetic boards serve as rubber stamps to management prerogatives.
- Oversight boards function primarily to review programmes, polices, proposal reports, and performance of managers and
- Decision-making boards are involved in setting corporate policy, determining management objectives, and authorizing their implementation.

Many Indian boards either come under this first or second category. The first generation companies mostly belong to this category. A board must exist to fulfil the legal requirements. The family members will be in the board, if the company is able to mobilize the funds within their friends and relatives circle. If they are not able to mobilize the funds, then the promoter will go for a public issue. Persons from outside the family will be accommodated in the board, to woo the public or impress the public with some widely known personalities in such circumstances. As a result, India’s only Field Marshal, General Maneckshaw adorned the board of some companies. Retired deputy

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2. www.oecd.org
governors of Reserve Bank of India were accommodated in some boards. The promoters are able to sell their companies among the investing public. Such boards mostly come under this category.

Many Boards have “cross directorships. People are invited to sit on boards because of their names. In return of the managing director of Company A accepting the board membership of company B, the president of company B accepts board membership of company A. Thus many Indian companies belong to the second model. There may be a reciprocal understanding that will avoid unnecessary questioning in the board meeting and embarrassing situations. These busy people do not have a large enough stake in the company to justify their spending much time on it. Or, if they are doing business with the company, they are understandably reluctant to probe into its affairs, to ask inconvenient questions, or to appear critical. They go through the motions. And they are likely to sit on so many boards that they cannot really do their homework. A directorship of companies was looked upon as something like a member of an old boys’ club in India. To call on the great and the good outside the charmed circle may be to invite trouble.

Boards constituted for the purpose of review of the performance or decision-making function is countable in Indian context. Professionally managed companies, normally belong to MNC group. Companies belonging to TATA house, and of late, some companies, which believe in professionalisation, constitute the board for these purposes.

From a slightly different perspective, on an evolutionary progression, corporate directorates can be classified in the following manner:

- Constitutional boards
- Consultative boards
- Collegial boards and
- Communal boards

The above classification considers the focus of power and the increasing significance of directors in the corporate governance mechanism.
CONSTITUTIONAL BOARDS

Constitutional boards are akin to minimum boards. The major difference is that the constitutional board emphasizes the legal mandate each corporation receives from its creator, i.e., the Companies Act. As previously mentioned, every company, from the minute to the largest, gets its right to legal life form the sovereign, who technically has the power not only to create a corporation but also to dissolve it. In the act of creation, the state issues a corporate charter which generally insists a provision that the new entity have a board at least with two directors in the case of a private limited and three in the case of a public limited company. Thus the company’s constitution prescribes the board. Unfortunately while they fulfil the legal mandate, most constitutional boards do little else. The directors tend to be unobtrusive and let all authority gravitate to the CEO. This characteristic is most prominent in small, new, low technology, closely owned firms, particularly if the company is run by the first generation entrepreneur.

Constitutional boards also carry other hereditary traits, depending upon their inception from proprietary or syndical parentage. Proprietary, in this instance, refers to founder-owner-managers who run the enterprise as a monarch. There are ready to delegate the powers only when there is a dire necessity to officers, who then serve as officers or inside directors. Syndical refers to ownership and power concentrated in a group of financial entrepreneurs who do not tempt to run the firm actively. Instead, even while serving on the board, they give nearly unqualified control to strong CEO. Over the time, the syndicate members relinquish their boardroom seats to outside directors who, in earlier days, served passively as cosmetic boards.

It is jocularly reported that the company secretary of Bangalore based company informed the chairman as follows: The directors have informed that all of them would be attending the board meeting. Since no important issues are to be discussed, they all would be very happy to join the picnic to Brindavan Gardens in Mysore. Barring a few companies, the board is nothing more than a statutory fiction. It is far from being an
instrument of collective thinking. Companies belonging to TATAs and Birlas will not come under this category.

CONSULTATIVE BOARDS

Consultative boards are the products of evolutionary progression. With growth in scale and complexity of endeavour, the dominant CEO finds it more difficult to act as the unquestioned helmsman. He need either technical assistance, buyer-seller contacts, or legal, financial, or political advice. The logical source of aid is the board. If the CEO adds lawyers, bankers, or other business people, he fabricates an outside board of directors. If he leans on his key executive and gives them titles as directors, it then becomes an inside board. In either case, over a period of time, the directors become better educated, better qualified, and as ownership tends to be more diffused, more independent. Also, as operation becomes more complex and global, and as the customers, suppliers, government, and the generals public take a keener interest in the firm, the CEO must consult his board more seriously. Currently the great majority of American boards are consultative in function. Indian companies have not graduated to this level still. As observed earlier, many of the Indian companies are still in their infancy. With the arrival of the new breed of investors in the post liberalization era, shareholders start questioning the companies on their performance. Unlike in the early period financial institutions start reacting to the performance of the company. It is a period of transition. In the pre-LPG era, most of the companies belong to the constitutional boards. In the near future, more companies may come under consultative boards.

NEED FOR BOARDS

1. To assess the Nature of boards in IOB, the researcher raised a question in an oral interview regarding the decisions in Board meeting. It was clearly stated that the entire board takes up the responsibility of decision-making in all matters. But still we find that certain decisions are taken by the CEO himself which is regarded as the constitutional board type; and some are taken by the CEO in consultation with the key executives where the board is grouped under collegial model.
2. The purposes of the board meeting range from satisfying the legal requirement evaluating the performance of the company and to framing the policy for the future. Moreover Indian Overseas Bank does not hold any meeting without the chairman / CEO, so that certain sensitive matters can be discussed freely by other stakeholders.

By virtue of section 291, Board of Directors is the executive organ of a corporate. In turn, the Board of Directors can appoint / employ one or more than one of the following categories of managerial personnel viz; a managing director and a manager. As per the companies Act, the management vests directly in the Board of Directors and no Chief Executive need be employed. Though legally, a board can run the show directly without creating a second-tier management, no corporate in India functions without the Chief Executive Officer (CEO).

The researcher had an interaction with Indian Overseas Bank officials and collected reports regarding the particulars of directors, with respect to their designation, nature of directorship, age, qualification, experience their shareholding in Indian Overseas Bank and other directorship to ascertain the position viz, who manages the Bank whether the CEO or manager or the board. The study revealed that IOB has been managed by efficient directors. On the whole IOB has 14 directors on the Board. Since the size is reasonable, directors involvement is greater and adds to the efficiency of the Board.

The Board had adopted a code of conduct for Directors and all the General Managers including the field general managers, and a declaration has been obtained from the CMD confirming their compliance with the code of conduct.

Shri K Sundar Rajan, then Deputy General Manager, a qualified company secretary attached to Board Services Department, is also the Secretary to the Board, in compliance with the recommendations of the Dr. Ganguly committee.
FUNCTIONS OF A BOARD

By virtue of section 291 of the companies Act, 1956, Board of Directors is the executive organ of a company. The members of the board individually have no function or duty. The board is essentially a group and collective activity. Detailed Management is not the responsibility of the board because, it does not have depth, knowledge of internal functions and the executive powers to carry on with the routine functions.

Review of function: Indian Overseas Bank has a group of experienced people, people of integrity and stature, people of proven performance capacity and proven willingness to work, advise and deliberate with top management. The researcher in the survey found that 37.5% respondents said that the board of IOB has knowledge of similar backgrounds, 12.5% of the respondents proved that they have different backgrounds and 50% proved that they have a very different background. Also relating to expertise and skills, 6.25% of the respondents stated that the Board Members have good response and experience; another 6.25% said their expertise and skills are balanced and a good percentage of 87.5% of the respondents said all the members are highly skilled expert.

This shows that the diversity of the board is of great importance and that the board is composed not they of members with varied experience and expertise and diverse professional qualification but also of people with different ethnic and cultural backgrounds.

MANDATORY REQUIREMENTS

AUDIT COMMITTEE

A qualified independent audit committee was set up to enhance the credibility of the financial disclosures and to promote transparency. It has minimum of members, with knowledge in financial and accounting areas. This Committee invites executives in addition to the head of internal or the external auditor is present as an invitee for the meetings of the committee. This committee meets atleast once a year with a gap of not more than three months. The quorum for this is either two members or one-third which
ever is higher with a minimum of two independent directors. This committee functions as a bridge between the Board, the statutory auditors and internal auditors.

**BOARD PROCEDURES**

Board meetings of Indian Overseas Bank are held at least eight times a year with a minimum gap of three months between any two meetings. Minimum information on profitability, quarterly results, minutes of committees, information on recruitment, remuneration, labour problems, statutory compliance etc. are placed before the board.

**MEETINGS OF THE BOARD**

The date and place of the meeting with the agenda are circulated to all Directors well in advance. The directors have access to all additional information on the agenda. Executives of the Bank are also invited to attend the Board meetings to provide necessary clarifications. During the year 2007-08, under review, the meetings of the Board were held 12 times as against the requirement of holding meetings at least once a quarter with a minimum of six times a year. During the financial year 2007-08, the board meetings were held in Chennai, Delhi, Pune, Mumbai, Guwahati, and Kumarakom. All the meetings were conducted with proper quorum and without any adjournments. The meetings had 75% attendance.

**MANAGEMENT**

Management discussion and analyst report cover bank’s structures, segment wise performance outlook, risks, internal control systems etc. which form part of director’s report. Besides, the management makes full disclosure to the board relating to all material, financial and commercial transactions.

**SHAREHOLDERS**

Information to shareholders regarding the appointment of director, quarterly results, directors responsibility statement share transfer etc. is disclosed in the bank’s website.
In case of appointment of a new director or re-appointment of existing director, information containing a resume, nature of expertise and the companies in which the person holds directorship and committee membership are provided to the benefit of shareholders.

Besides, the board committee under the chairmanship of a non-executive director is also formed to specifically look into the redressing of shareholder complaints etc. and in order to expedite the process of share transfers, the board delegates the power of share transfer to a committee called share transfer committee. This consists of the chairman and the Managing Director or in his absence the Executive Director, one shareholder director and one director nominated by the Board. The committee deals with all matters connected with share transfers, transmission, issue of duplicate share certificate, transposition, demat / remat etc. During the year 2007-08, this committee met 25 times and all the meetings were conducted with proper quorum and without any adjournment. The members of this committee attended all the meetings conducted during the year.

This committee appointed a practising company secretary to undertake the secretarial Audit in the office of the Registrar, to verify the methodology followed by them to share transfer, transmission, etc. His assignments commenced on 01.10.2005 and his fortnightly reports are considered at every meeting of the committee. No request for transfer is pending for more than one month.

The shareholders Grievances committee, constituted in April 2001, was reconstituted by the Board on 07.06.2003, 11.09.2004, 27.12.2005 and 23.04.2007. At present, there are three members nominated by the Board. The committee met three times during the period 01.04.07 to 31.03.08. The committee considers the practising company secretary’s quarterly report at every meeting.

**COMPLIANCE**

In terms of clause 47 of the listing agreement, with effect from 30.08.2007, Shri.K. Sundar Rajan, Deputy General Manager and company secretary is the compliance
officer for the purpose of complying with the various provisions of SEBI, Stock Exchanges etc.

As regards commitment to corporate Governance reforms, the compliance officer reports directly to the audit committee of the board. For administrative reasons he reports through the top management. The compliance officer reports to the board the results of the regulatory examination through Internal Procedure only. No specific regulations exist on this score.

The researcher analyzed that the respondents (100%) have stated that the bank has a written code of corporate governance that has been adopted by the board and accepted by the regulators. 57% of the respondents stated that the chairman of the board is specifically responsible for ensuring adherence to the code and the company law and the remaining 43% refused to toe the line. This reveals that the shareholders have an in depth knowledge regarding the board process.

All the respondents (100%) agree that the bank has a full-time compliance officer responsible for ensuring compliance with laws and regulations. It is clear from their response that Indian Overseas Bank cares for shareholders rights and communicates all the results on time. 100% of the respondents also have a clear idea that the compliance officer is separate from the Internal Audit Department. Regarding the degree of access by the compliance officer to information, whether from management or the board, 50% of the respondents stated that he has ample access, 43.75% stated that he has acceptable access; and the remaining 6.25% only revealed that he has no direct access to management or board.

SHAREHOLDERS COMPLAINTS

The Bank has also a separate cell to look into the complaints of shareholders.
MANNER OF IMPLEMENTATIONS

A separate section on corporate governance in the annual reports is introduced covering all the mandatory requirements. Non-compliance of any of the mandatory recommendations is highlighted to enable the shareholders and securities market to assess for themselves the standards of corporate governance adopted by the Bank.

NON-MANDATORY REQUIREMENTS

CHAIRMAN OF THE BOARD

The chairman’s role should in principle be different from that of the chief executive, though the same executive can perform both the roles. In view of the importance of the Chairman’s role, the committee recommended that a non-executive chairman should be entitled to maintain a chairman’s office at the company’s expense and also allowed reimbursement of expense incurred in the performance of his duties, to enable him to discharge his responsibilities effectively.

But, as far as Indian Overseas Bank is concerned, the Chairman is the Managing Director and also an Executive Chairman. Hence this clause is not applicable to Indian Overseas Bank.

REMUNERATION COMMITTEE

Remuneration payable to the whole time directors is decided by the Central Government. The Bank does not pay any remuneration to other directors except sitting fees as per guidelines of Central Government. The board in its meeting held on 22.03.07 set up a remuneration committee where remuneration (excluding performance linked incentive) payable to the whole time director is decided by the Central Government. This committee, a sub-committee of the Board of Directors has been constituted for evaluating the performance as per the government guidelines and to recommend payment of performance linked incentives to the whole time directors of the bank, in terms of Government of India, Ministry of Finance (Banking Division) letter F.No.20/01/2005 date 09.03.2007. This Committee comprises four members where one member is the
chairman being a shareholder director. All the members were present at the meeting held on 23.04.07.

SHAREHOLDERS RIGHTS

All the shareholders are provided with the Half-yearly results.

POSTAL BALLOT

Although the formality of holding the general meeting is gone through in actual practice only a small fraction of the shareholders do participate. This virtually makes the concept of corporate democracy illusory. In this context, for shareholders who are unable to attend the meeting, there should be a provision which will enable them to vote by postal ballot on key issues such as alteration of Memorandum of Association, sale of investments / undertaking, issue of share capital, corporate restructuring etc.

But the principle followed in Indian Overseas Bank is resolutions are not passed through postal ballot and voting by postal ballot has not been entertained till date.

AUDIT QUALIFICATION

Constant efforts are being made by IOB to move towards a regime of unqualified financial statements.

TRAINING OF BOARD MEMBERS

The board members are imparted training by nominating them for training programme at reputed training institutes. Each director is provided with a reference manual detailing his or her roles and responsibilities and matters of importance.

MECHANISM FOR EVALUATING NON-EXECUTIVE BOARD MEMBERS

The bank does not have such mechanism, as such presently it is not applicable to Indian Overseas Bank.
WHISTLE BLOWER POLICY

Presently the bank does not have a whistle blower policy. No persons have been denied access to the audit committee.

Cooperates would in due course put in place an appropriate whistle blower policy enabling both the board and the senior management to take corrective measures to stem the rot, if any at the right time. Though SEBI under Listing Agreement (LA) with stock exchanger made whistle blower policy in the revised clause 49, non-mandatory, corporate governance advocates point out that sooner than later the Indian regulator would be prompted to make mandatory the whistle blower policy through which a company might establish mechanism for employees to report to the management concerns about unethical behavior, actual or suspected fraud or violation of the corporate’s code of conduct or ethical polices.

ASSESSMENT

The Board of Directors of Indian Overseas Bank is considered as the main driver of good Corporate Governance practices in a company. They play an indispensable role in providing strategic guidance to the management and monitor them to maximize the long-term value of the bank. The performance of Indian Overseas Bank and its transparent policies are crucially linked with the values practised by the Board. No matter what the externally imposed rules and regulations are, the Board of directors themselves need to spearhead good governance culture across the organization.

PRIMARY RESPONSIBILITY OF GOOD CORPORATE GOVERNANCE

When executives’ views were sought on this facet of company, a higher proportion (92%) agreed that the primary responsibility for good Corporate Governance rests upon the Board of Directors. An in-depth analysis shows that directors unanimously agree that the primary responsibility for good Corporate Governance rests upon them.

Corporate Governance has a lot to do with power and accountability. However the effects of Corporate Governance are hard to calibrate. When things go wrong, there occur serious consequences on Indian society at large as well as on the employees. The
investors, and stakeholders are affected directly. Then the directors are held accountable and are expected to guide a reassessment of strategic directions.

8% of the executives of Indian Overseas Bank have slightly different thinking. They state that the primary responsibility for good Corporate Governance depends on the promoter-director’s policy because of the influence they exercise on the rest of the Board. They feel that the primary responsibility rests upon the entire senior management team including the Board of Directors.

The Chairman cum Managing Director and company’s philosophy for Corporate Governance are important in Indian companies. The Corporate Governance has the potential to empower the management of the company and highlight weakness thereof. Hence every entity that has direct or indirect approach to Indian Overseas Bank is responsible to contribute to good governance. There is no doubt that primary responsibility of Corporate Governance but not the ultimate responsibility rests upon the Board.

**PROPER MONITORING MAKES BOARD OF DIRECTORS MORE EFFECTIVE**

Corporate Governance should be an integral part of values, ethics and best business practices of the company. Proper monitoring of the performance for governance will make the Board more effective. 96.4% of Indian Overseas Bank stakeholders agree that proper monitoring of the performance for governance could make the Board of Directors of the company more effective.

But 3.6% of the responding officials don’t go by this opinion. A senior executive feels very strongly that there is no need to monitor governance as it should come from within. Over 50% (58.3%) of the executives of IOB specified that adherence to rules will make Board of Directors more effective. One-third of the executives felt that a system of monitoring the performance would enhance transparency in Board’s functioning. It will
act as an effective checklist for the action of various items that affect governance practices.

It is the initiative of management coupled with active Board of directors, which will make the role of board more effective. This brings effectiveness, efficiency, accountability and responsibility in them and they become more focused on their role. Since directors have all the powers, so better monitoring them brings greater focus in their role, which will eventually prove very helpful in confidence building and image building.

The quality of Corporate Governance in Indian Overseas Bank is determined by many factors. Integrity, ability and commitment of the Board of Directors and proper financial reporting and quality of reporting are of immense importance for good Corporate Governance.

EXTERNAL VS. INTERNAL RULES

It is generally thought that the climate, which fosters good Corporate Governance and value system, and binds people together, is more important. Truth, courage, caring attitude and honesty, in dealing with government, environment, and people are of foremost importance for Corporate Governance. Executives of Indian Overseas Bank feel that rules which top executives, as individuals set for themselves are essential because good Corporate Governance environment will not prevail merely by issuing guidelines and imposing rules.

Similar sentiments were echoed by Narayamurthy, “Corporate Governance is beyond the realm of law. It stems from the culture and mindset of management, and cannot be regulated by legislation alone. It is about openness, integrity and accountability. There is a well-established belief that not only the reform of the laws is necessary but also reform of the mindsets is absolutely essential”.

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3 ICFA Journal of corporate governance Vol. V No.3 2006 P-50
Certain aspects of Corporate Governance are difficult to be quantified and, hence, self-regulation will play a strong role. The stakeholders sooner or later come to know about bank’s good practices and this helps Indian Overseas Bank gain competitive edge over the other banks.

**BOARD SIZE**

The Naresh Chandra Committee has recommendation that the minimum size of Board of all listed companies and private Banks with a paid –up share capital and free reserves of ten crores and above or turnover of fifty crores and above, should be seven. With the increase in turnover, the minimum size of the board also on an increase but only up to certain level, beyond that level increasing turnover doesn’t influence the minimum size of the Board. Larger boards are dictated by desire on the part of Indian Overseas Bank to have wider geographic business and public representation of their Boards.

The size of boards varies with the size of the bank. A Board should neither be too small to permit proper representation of varied experiences and points of view, nor too large or unwieldy to allow adequate free discussion of issues.

**SIZE VS. POLITICS**

The size of the Board depends upon the size and nature of operations carried on by Indian Overseas Bank. Greater the number of directors, the greater would be the time involved in the decision-making process for any business decisions. A larger Board may mean a greater degree of politics in decision-making.

It is the skills mixed on the board of Indian Overseas Bank which is a major determinant of the value addition that the Board brings to the firm. It is not numbers, which are important, but rather the effective integration of the skills and knowledge base of the Board, which the bank needs at any particular point in time. It all depends on the attitude and perception of the directors of Indian Overseas Bank.
AGE OF THE DIRECTOR

Indian Overseas Bank makes a deliberate attempt to have members of different age groups in its Board to make it a balanced Board in the true sense. Age has a tremendous influence on attitude, outlook, and adaptability and energy. If young members have innovative ideas, open mind, enthusiasm and risk taking courage, the older generation has the depth of experience, rationality and maturity. Thus it becomes imperative to induct new blood along with senior members in the Board to have continuity in the organization.

BOARD MEETINGS

"Clause 49 of listing agreement of Bombay Stock Exchange has made it mandatory that the Board meetings be held at least four times a year with a maximum time gap of four months between any two meetings"4.

The study also sought to find whether they should be compulsorily meet informally as well before a formal meeting. A fairly large proportion of Indian Overseas Bank shareholders do not feel any need for the Board to meet informally before a formal meeting.

The executives of Indian Overseas Bank emphasize that all the papers of proposed business should be sent at least a week in advance and agenda should be clearly mentioned. There is no need to meet informally. They are of the view that compulsion of any type is counter-productive. Moreover formal things are not disclosed informally. When there is a sub-committee then it is not required to meet prior to the meeting. They suggest that quarterly meeting should be made compulsory though depending on the need the Board can meets as many times as is required.

Some of the respondents think that it is desirable that the Board should meet informally before a meeting to ensure harmonious and congenial relationship and for proper understanding among the directors. But it shouldn’t be made compulsory as it will become an onerous exercise and will lose its objective.

4 ICFA Journal of corporate governance Vol. V No.3 2006 P-54
DECISIONS AT BOARD LEVEL

It is often said and believed that in Board meetings routine affairs are discussed. The time pressed schedules of most of the directors make it more difficult for them to go into the details of company’s strategic developments. The ‘blind-folded’ attitude of the directors forces them to endorse management’s philosophy and actions.

The majority of the decisions at Indian Overseas Bank are taken at their Board level through ‘debate and discussions’, followed by less than one-fifth (18.6%) claim that there exists complete consensus.

It will certainly be healthy for any organization if decisions in their Board meetings are taken after intensive debate and discussions.

BOARD QUALITIES AND CORE COMPETENCIES

The quality of the people who are at the helm of affairs of the company matters a lot. An overwhelming majority of executives claim that their Board has an appropriate mix of background, skills and experience.

The Board of Directors are expected to possess certain positive traits. These traits can help them in conducting corporate activities and Board deliberations in more rational and effective way. Some of these qualities are intelligence, integrity and courage to speak fearlessly in the meetings.

EVALUATION OF DIRECTORS

The expectations of all stakeholders from the directors are on the rise. As a result, director’s responsibility towards them also increases. Public at large is now more aware and less tolerant towards those who don’t take care of their interests. Director’s deeds and actions remain more and more under magnifying glass and they can’t expect to get away from wrong deeds. It is vital that Boards ensure that they are acting effectively and
efficiently for which it is imperative to evaluate Board, which should be more like introspection.

A more rigorous evaluation of top management and a system of performance-based compensation would soon translate into improved performance for the bank as a whole. If the evaluation system is efficient, it will help the directors to assess their performance, enhance their skills and will motivate them to become effective Board members. The reappointment of the members can be objectively decided through evaluation. The well-evolved evaluation process helps in having better team dynamics and communication, greater clarity with regard to member’s roles, responsibilities and in improving CMD-Board relations.

The evaluation of the Board as a whole is the responsibility of the Chairman. Responding officials state that there is no formal evaluation system for the Board. Executives are evaluated on the basis of confidential reporting.

Nomination and remuneration committee can evaluate individual directors on the basis of criteria like attendance in the Board/committee meetings, membership/chairmanship in the Board / committee meetings, membership/chairmanship in the Board committees, participation in the activities of the company and advice/support by them to the company from time to time. Since decisions are taken collectively and not individually, and so evaluation process can become difficult.

A Board, being plural executive, should act only as a group. Moreover Boards performance gets reflected in the financial parameter of the company, if bank doesn’t perform well, then quality as well as the efficacy of the Board is questioned. The evaluation process should be contemplated on the basis of parameters being set by the credit rating agencies. Thus a performance review can be a full-Board evaluation, individual director’s self-assessments and directors’ peer review of one another.
CONCLUSION

Corporate Governance can be the world of rules, regulations and formal practices or its scope can extend to the world of values and ethics. Integrity, ability and commitment of those who are at the helm of banks affairs matter a lot. The management initiative is considered more effective than activism generated by the shareholders. Transparent functioning of the Board of Directors and management is of crucial importance.

Self-discipline is the need of the hour. But in the wake of increasing corporates scams, regulators can’t adopt the policy of ‘wait and watch’ and need to regulate the corporate affairs in the interest of stakeholders. Externally imposed rules have not found general favour with the corporate executives. It is easier to frame a code than to follow and blend it in corporate working. Various reports on CG have initiated lots of good practices in the companies.

The size of the Board increases with the turnover but only up to a certain level, beyond which the increasing turnover doesn’t influence it. The effective integration of the skills and knowledge base of the Board is more important then the size. The directors should be in the age group of ’25-70 years’. The need to have informal meeting of the Board is not felt. It is important to finalize agenda of the meetings. Each director should have due information and details about the meeting and agenda. The core competencies of the directors are strategic thinking and leadership qualities besides honesty and integrity.

The suggestion to have rigorous evaluation of top management and to link compensation with performance has not been translated into reality in the Indian Corporate houses.