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The real issue of corporate governance is enforceability: Farida Khambata

Interview with director, Tata Sons

Abhineet Kumar | Mumbai August 14, 2015 Last Updated at 00:29 IST

Farida Khambata is one of the most high profile women directors across several company boards in emerging markets. Global strategist at US-based alternate asset management firm Cartica, she was earlier a member of the management group at International Finance Corporation, World Bank's private sector arm. She served as regional vice-president in charge of all operations in East Asia and the Pacific, South Asia, Latin America and the Caribbean and the global manufacturing cluster. Khambata was responsible for strategy, investment operations and advisory services in IFC member countries in these regions, which account for three-quarters of all IFC's investments.

Recently she joined the board of Tata Sons as the first professional woman director. Khambata talks to Abhineet Kumar on corporate governance issues in India. Edited excerpts:

Do you think we have achieved necessary diversity on companies' boards with the Sebi's directive to appoint woman directors?

Gender is just one aspect of diversity. There is always room for improvement. One of the things we notice about Indian boards is that people hire directors, who tend to continue for many years, even though the underlying business may have changed. The requirement of the boards is often not reflected in the skills that the boards have. Though, the Sebi is trying to address the issue by requiring a rotation of directors, it is something Indian boards lack in comparison to other international boards.

We have concrete examples that show that having women directors on board is a sensible thing to do. A Credit Suisse study shows that stocks of companies with at least one woman director on board outperformed those with no woman by 26 per cent over six years. It also helps when you have people who have a different perspective on the world in terms expecting and questioning the board. So, Sebi's directive has certainly helped achieve this.

A large number of Indian boards have promoter family members joining at young age. How healthy is this trend?

Promoter family members on board are pretty universal, and to an extent shows that share holder structure is being replicated. But in many of the emerging markets, we have seen promoters first send their kids outside their family business to work for a fairly significant period of time. So, overtime they learn to see serious evaluations in terms of their performance and after that they come back on a company's board. I understand that a lot of promoters would like their children to be exposed to the board at an early stage. But one can achieve that with making the child make presentation to the board. India still has some way to go.

What other governance issues India needs to catch up?

I think the new Companies Act and Sebi regulations are major steps in the right direction. I think there are generally two broad issues. First is the issue of disclosure and second, enforceability. If we look at first one, there are voluntary and mandatory disclosures. In the US, material contracts are required to be public domain information. That is still not done in India. We are now seeing firms trying to summarise material contracts, but they do not put the actual contract out on the website.

Then you have the question of enforceability and we find that even on the mandatory side, we are somewhat lagging. Among the BSE 100 companies, we found out that only 41 met mandatory requirements. We have the rules. There may be the need to clean up and modify the laws and the rules, but the real issue of corporate governance is enforceability.

Multinational firm Louis Berger has got entangled into a bribery scam. How could the board of these global firms ensure that their practices are fair in India?

I do not think this is just a multinational company's problem in India. It is a pretty global problem. The OECD (Organisation for Economic Co-operation and Development) countries have anti bribery convention — 34 OECD countries have signed up. Seven emerging market countries, including Argentina, Brazil, Bulgaria, Russia and South Africa, have also voluntarily signed up. They have used it to define what is acceptable and say bribery is not acceptable.

Clearly, the board member is completely distant from the operating department, but I think it is the role of the board to make sure there are enough checks and balances in the system and enough conscious control to check this from happening. Having said that, we know it does happen, there is always the trade-off between giving autonomy to operating units on the one hand and control on the other. One has to manage the fine balance.

What are the constraints that you see for directors on a company's board that is led by a promoter family?

When people are appointed by the chief executive officer (CEO), they think they are beholden to the CEO. And if they have been on the board for a long period, they become a part of the family. And just by the longevity, they lose their independence and ability to criticise. Also, if they feel that by criticising they may lose the position and if that is important to their economic welfare, it becomes difficult for them to be objective and critical.

Correction: The earlier version incorrectly mentioned that Farida Khambata was director, Tata Motors. We regret the error.