Corporate Social Responsibility
Prof. Aradhna Malik
Vinod Gupta School of Management
Indian Institute of Technology, Kharagpur

Lecture - 38
Board of Directors

Welcome back to the MOOC course on corporate social responsibility. My name is Aradhna Malik and I am helping you with this course, and we have been you know we have been talking about various aspects of corporate governance, we have discussed what corporate governance is we have talked about the theories of corporate governance, we have talked about the models and systems of corporate governance and how corporate governance shapes up in different contexts, and in the very last class which was a very brief lecture we discussed how corporate governance is implemented.

So, in this class we are actually going to take that discussion on implementation forward and talk about the boards. What is a board of directors you know we hear about the boards of directors and we hear that board of directors has done this and that and you know. So, we hear all these terms on the news. So, what exactly is the board of directors, what do they do, what does it mean to have a board of directors, why are they there we have already discussed why they are there, but in this particular class we will talk about the nuts and bolts.

So, I am also teaching you a little bit about what organizations are composed of, and then of course, in the following lectures we will tie in corporate governance with corporate social responsibility and how these two feed into each other. So, you will see why we had so much of discussion on the corporate governance, the structure of organizations. Let us see what we have here so, board of directors.

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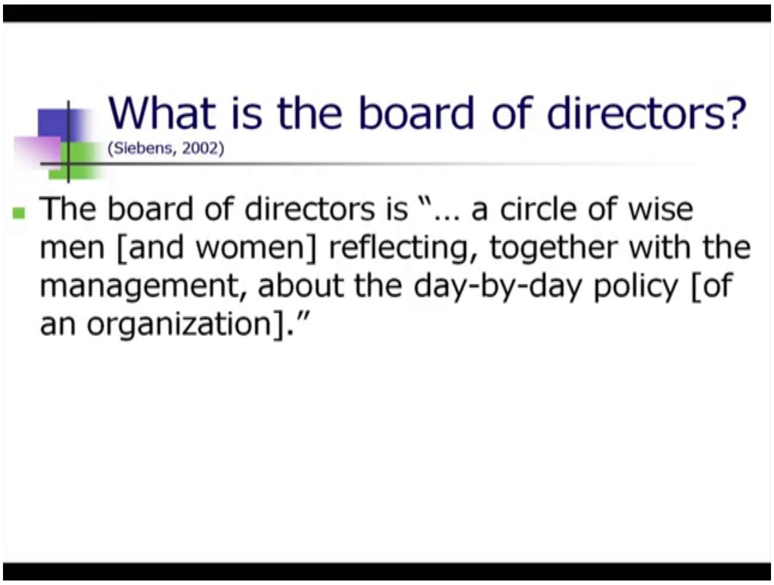

Now, what is the board of directors? The board of directors is a circle of wise men and women reflecting together with the management about the day by day policy of an organization.

So, board of directors is you know it is a collection of men and women, who are sitting around a table maybe around a table maybe in a very comfortable setting, but discussing about how an organization is really functioning and discussing about the policies that are made to run the organization ok.

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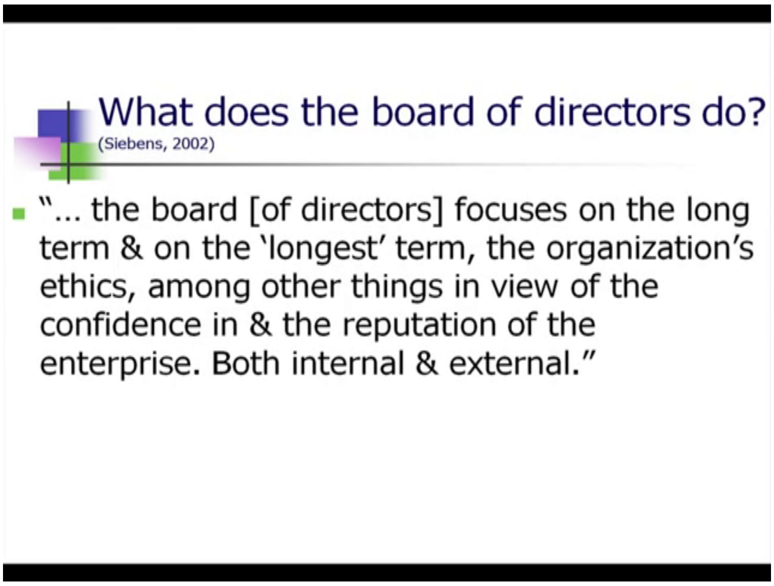

Now, what does the board of directors do? The board of directors focuses on the long term and on the longest term the organizations ethics, among other things in view of the confidence in and the reputation of the enterprise both internal and external.

It discusses what the organization is planning to do, what is the vision of the organization, where is it going in terms of the working and the value systems that are to be followed in doing so, among other things in view of the confidence in and the reputation of the enterprise, what does the world think of the enterprise. For the short term for the long term what do they want the world what do they want the people connected to the organization think of the organization in the longer term.

So, the reputation of the organization within the organization and outside the organization and that becomes the responsibility of the board.

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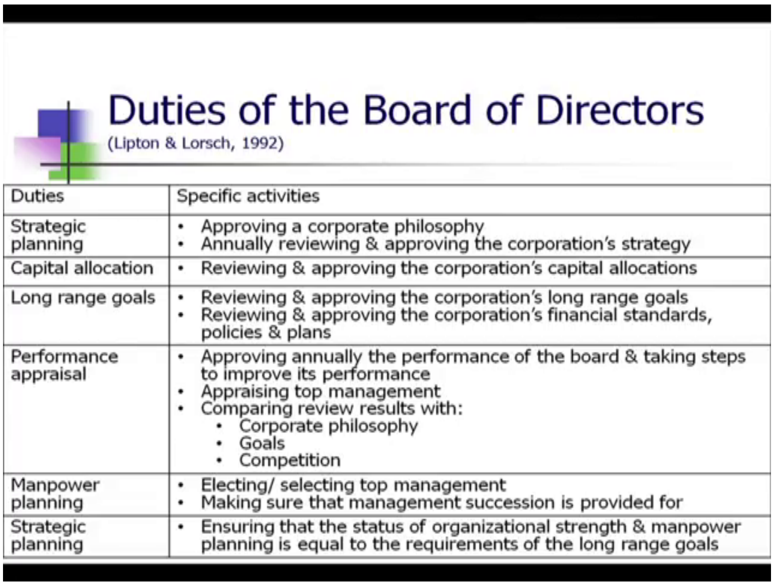

Duties of the board of directors again you know this is a very very fine print. So, duties strategic planning. Strategic planning is the duty and towards fulfilling this duty the specific activities are approving a corporate philosophy and annually reviewing and approving the corporations strategy.

So, designing a strategy designing a strategy of the organization and trying to find out what the philosophy of the organization is and then reviewing and approving the corporations strategy in light of the long term philosophy of the organization, and in light of the long term vision in light of where the organization is supposed to go. So, that becomes the one of the goals of the or one of the duties of the board of directors, the second duty here is capital allocation these are the people who have the money that can be channeled that needs to be used to run the organization they are the people who are going to take that money and give it to people who are who have the time and resources to run the organization.

So, the duty is capital allocation, they take they have this pool of money they review and approve the corporations capital allocations, they find out how the money is going used by the people who are going to run the organization, and they approve or suggest or make changes to the plans of the management in allocating this these financial resources; then the third duty here is long range goals, what is the organization aiming towards.

So, in light of this or in line with this the board of directors reviews and approves the corporations long range goals, they review and approve the corporations financial standards policies and plans. So, they review they find out what the organizations long they decide on the long range goals of the organization. They have the managers the people running the organization tell them about or advise them on what the organizations goals should be. So, they get together they have a discussion and then they review the long range goals suggested by or discussed in this collaborative activity, and then they approve the goals that should be set for the organization and for the long range, and then they approve the organizations financial standards, they approve the organizations policies and plans to achieve these long range goals.

So, that is this the next duty. The third duty of the or sorry the next duty of the board of directors is performance appraisal and towards this the specific activities are approving annually the performance of the board, and taking steps to improve its performance appraising top management comparing review results with corporate philosophy goals and competition. So, what do they do? They approve they have a method of self appraisal they find out where they started and where they are going.

So, they appraise themselves they also appraise the top management they find out who they hire to do the work for them, then they find out whether these people have been doing the work they were assigned then they compare the results of these two with the goals of the organization the philosophy of the organization, and the competition the organization is facing so that they know whether these goals are really going to help them get ahead of the competition or compete with their competitors or not ok.

So, that is the these specific activities they engage and then is manpower planning. Electing and they do not go to the nuts and bolts of manpower planning, they find out they elect or select the top management and they make sure that the management succession is provided for. Now what is management succession they find out who the people they decide on who will they delegate the responsibility of running the organization to, and then they select these people or they may elect them from a pool of candidates and then they after that they make sure that the succession planning is taken care of, now what is succession planning.

Now, I am going to human resources see all of these things are interconnected at some stage. So, succession planning is a plan to facilitate the movement of the currently serving officer out of the current role and induction of the person who can take the place of this person who is leaving the organization for any reason whatsoever it is called separation, it could be a voluntary separation where the person actually leaves the job or goes and goes away or involuntary separation in the case of say death, or you know a promotion or being fired from the job. So, you know various kinds of separation are there.

So, this is how the promotion is again a voluntary separation you actually move to the next level, but moving to or a transfer for example, you know. So, again the boundaries are blurred let us not go into those details, but anyway. So, succession planning is the plan to facilitate the exit of one officer and the entry of another officer to take care of the same role without letting the work get hampered, without letting the work get affected and that plan is then reviewed and approved by the board of directors. As far as the top management is concerned, as far as the major responsibilities are concerned of course, they delegate the responsibility of ensuring succession plans for the lower levels to the people who they have hired to manage this workforce, and again they go back to strategic planning.

So, they ensure that the status of organizational strength and manpower planning is equal to the requirements of the long range goals; they review everything and they ensure that the status of the organizational strength, the number of people the skills they have brought in the kind of work they are doing is equal to the requirements of the long range goals, is in line or is sufficient to meet the long range goals to achieve the long range goals. So, then the cycle is complete and these constitute the duties of the board of directors, this is the kind of work the board of directors is ideally expected to do all right.

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The competencies desired in a good director are personal qualities, relational qualities professional qualities, ethical qualities, motivation being complimentary within the board as a whole. So, personal qualities how do they relate to each other or their own qualities personal qualities relational qualities, how do they relate or what the their interpersonal relationships with people around them, professional qualities the skills they bring to the table ethical qualities motivation and being complimentary within the board as a whole adding value to the board not really duplicating whatever other people are bringing in, but adding something unique to the skill set of the board ok.

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Then next some critical considerations in the appointment of a director; motivation how motivated the person is the skills they bring in the value added to the board this is something, that they see that the peoples electing or selecting the board of director sees the time they have available to serve on the board of directors and do good for the organization. Incompatibilities and conflicts of interest and you know incompatibilities in terms of personal and professional and compatibilities, I mean you may think that a person is very very suited for a for a particular role, but the person may not be very suited.

So, you know because they have other priorities or other interests. So, incompatibilities the degree of similarity between personal ethics and deontology and the ethical codes followed by the enterprise. So, deontology like we discussed in the previous class is focusing on actions, focusing on the actual on the process as opposed to just evaluating the end result as good or bad as ethical or unethical. So, the process also becomes important so, the degree of similarity between personal ethics and the attention to ethics of the process and the ethical codes followed by the enterprise. The degree of similarity between the vision declaration of assignments and strategy within the board, the presence of an assurance for personal liability if they are serving on the board they are contributing to the decisions then they need to assure the board that they will take responsibility for the decisions that they are trying to push for.

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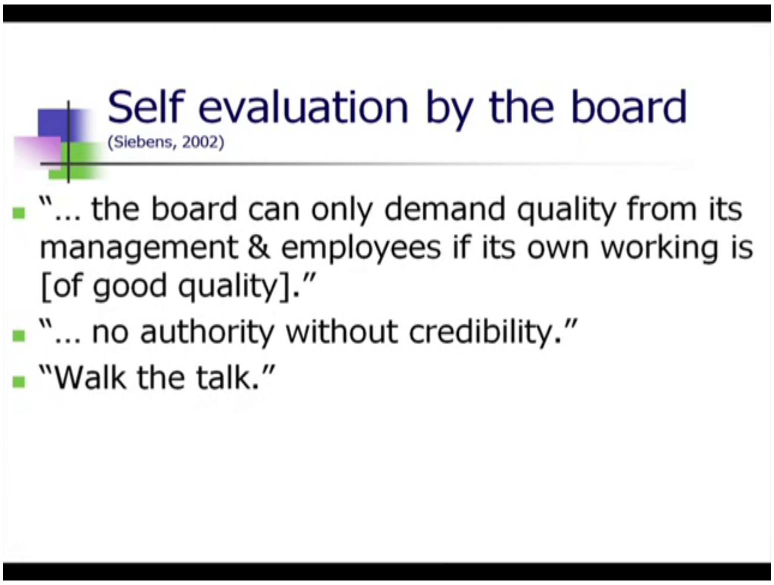

So, that also becomes a critical consideration in the appointment of a director. Self evaluation by the board this is another activity the board can only demand quality from its management and employees if its own working is of good quality. No authority without credibility they must walk the talk then again we cannot expect people to do something that we will not be able to do ourselves. So, we can only demand quality from others if we are doing quality work ourselves, and if we cannot have authority over others if people do not believe in whatever we are doing, no authority without credibility they need to walk the talk all right qualitative streams of information and communication and the scorecard.

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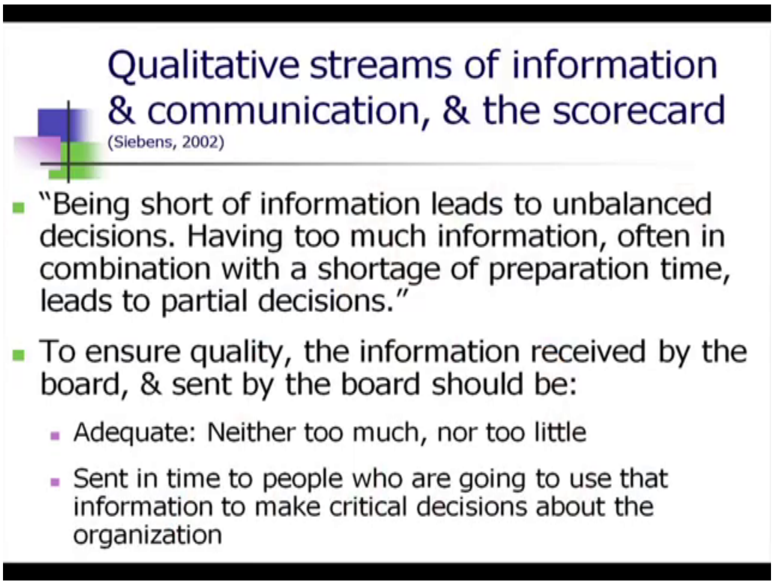

Now, they need to ensure board of directors needs to ensure that the information received by the board and sent by the board should be adequate, it should be neither too much nor too little, and it should be sent in time to people who are going to use that information to make critical decisions about the organization. Why because very little or little information or inadequate information leads to unbalanced decisions, you do not have to know you know enough information. On the other hand having too much information often in combination with the shortage of preparation time leads to partial decisions.

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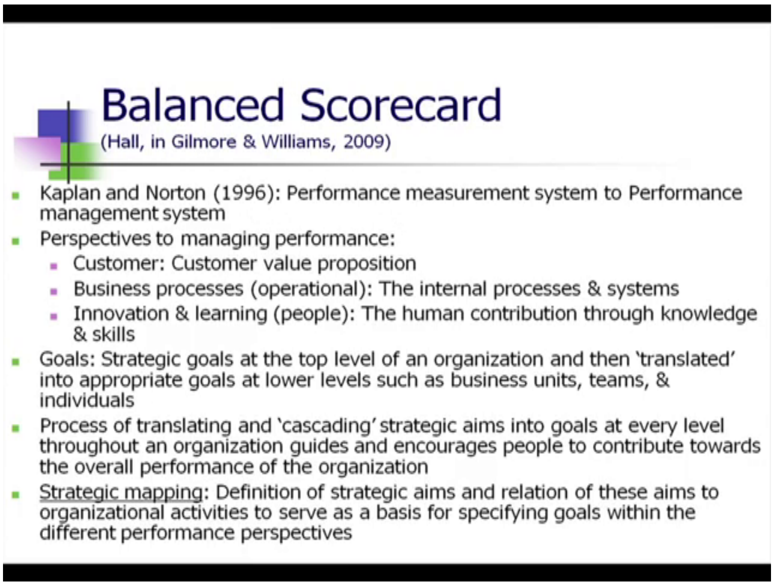

So, this problem needs to be taken care of; what is a balanced scorecard again I am going into human resources and I am sorry for the tiny font, but this is just an overview you know what is a balanced scorecard. A balanced scorecard is a performance measurement system to performance you know a performance measurement system to performance management system. Now our perspectives to managing performance you have customers you have business processes you have innovation and learning.

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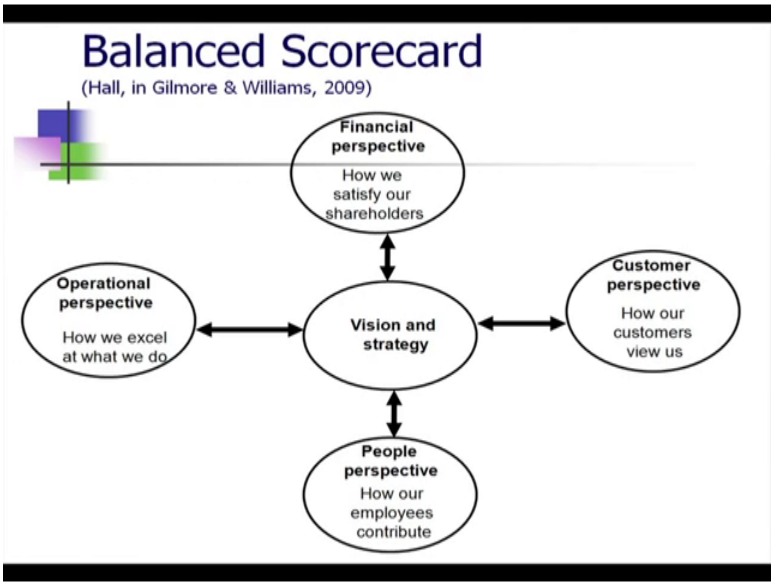

Let me show this to you actually this will make more sense the description will make more sense if I show this to you.

A balanced scorecard shows you how the different perspectives of the way in which the organization is working a line with its vision and strategy. A balanced scorecard lists the activities that are being taken from to satisfy different perspectives of the organization and then compares them with the vision and strategy of the organization and gives you a metric, it gives you a number as to what percentage or how well the activities that are being taken care of here for different perspectives, are aligning with the vision and strategy of the organization.

So, financial perspective for example, how do we satisfy our shareholders, what are we doing to take care of our shareholders. Customer perspectives how do our customers viewers. People perspective how do our employees contribute and how do they view us operational perspective how we excel at what we do these are the specific activities. The explanation is here I can read the explanation, but it may or may not make very much sense to you if I read it. So, when I give it to you in the slides I request that you read this information and get back to me, if you have any questions understanding I am just going to look at the last portion here I will read out what strategic mapping is. Strategic mapping is the definition of strategic aims and relation of these aims to organizational activities to serve as a basis for specifying goals within the different performance perspectives.

So, that is what we are talking about here, you know this is called strategic mapping comparing what we want out of the vision and strategy with what we are doing in different spheres to take care of that or too sad to reach the goals that we have set for ourselves.

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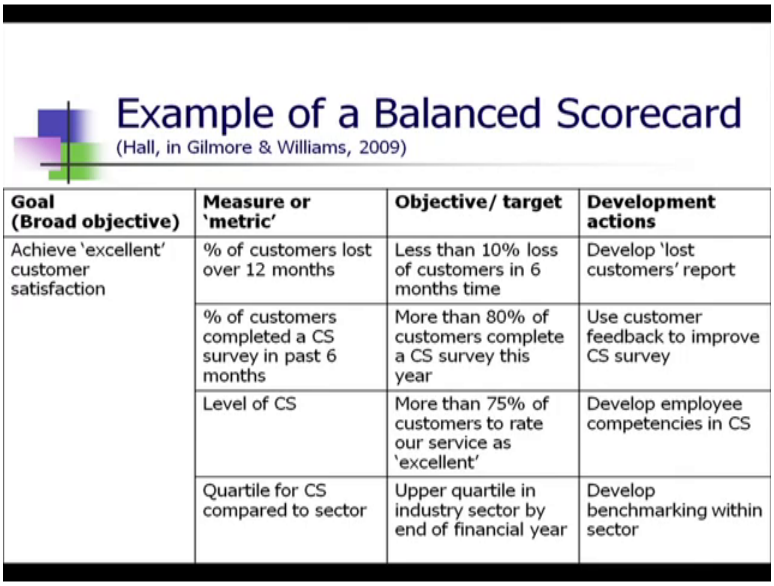

Goal (Broad objective)	Measure or 'metric'	Objective/ target	Development actions
Achieve 'excellent' customer satisfaction	% of customers lost over 12 months	Less than 10% loss of customers in 6 months time	Develop 'lost customers' report
	% of customers completed a CS survey in past 6 months	More than 80% of customers complete a CS survey this year	Use customer feedback to improve CS survey
	Level of CS	More than 75% of customers to rate our service as 'excellent'	Develop employee competencies in CS
	Quartile for CS compared to sector	Upper quartile in industry sector by end of financial year	Develop benchmarking within sector

Here is an example of a balanced scorecard; the goal is a broad objective; so for example, here the goal or broad objective, here the measure or metric objective or target and development actions. If the goal is to achieve excellent customer satisfaction the metric or measure for doing so, would be percentage of customers lost over twelve months for example, the objective in this direction is that now we need to ensure that we lose less than 10 percent loss less than 10 percent of customers in 6 months time. Development actions we develop lost customers report if we make a report we outline the reasons why these customers were lost and the actions we are taking to recover these lost customers ok.

So, that is a measure a tangible verifiable measurable activity that we are carrying out we are losing customer; how many customers are we losing and why, these are the reasons these are the customers we have lost what do we need to do next we need to do whatever it takes to make sure that customers are not lost. So, let us cut this down this is the number of customers we have lost in the past 6 months, past 6 months we lost went 12 percent customers, the next 6 months let us bring the number down to a reasonable number we cannot bring it down to 0.

So, let us just push it back by 2 percent let us make sure that we do not lose more than ten percent customers in the next 6 months and let us note down whatever we do in order to facilitate this. So, that that becomes a benchmark and we keep doing whatever it is that we were doing to recover lost customers to prevent loss of customers and then we prepare a report based on this and we submit it.

The second example here would be or could be percentage of customers completed who completed a customers satisfaction survey in the past 6 months, how do we know that customers are satisfied we have them complete a customer satisfaction survey. So, the objective or target is to ensure that more than 80 percent of customers complete a customer satisfaction survey this year. We find out how many customers completed a customer satisfaction survey let us say the number was 50 percent maybe the next time we can push it to 60 percent maybe not 80 percent, but we have a realistic number and then what are the development actions that we do we find out what is in the customer satisfaction survey and we use customer feedback to improve the customer satisfaction survey so that more and more people fill out the survey.

Occasionally you will find that the survey is a long drawn out; now one very very popular I will give you an example one very popular E-commerce company has a very very short very brief customer satisfaction survey, that you just fill out and none of the questions are really compulsory. So, you just you know they have 5 stars how did we do what do we need to do 3 or 4 questions. So, it becomes very easy to complete it. So, even if you are not in the mood and you have had a good experience, one feels tempted to just click on 5 stars or 4 stars you know.

So, even if you do not have the time the length of the survey is inviting. So, you know that is something that you could do and I am sure it did not come the first time the first time the survey must have been very long, but based on customer feedback they improved and improved and improved and you know even a person like me who is not very comfortable with filling out these surveys, I feel compared especially when I have had good surveys I feel compared to give positive feedback to the person who helped me at their end so that this person also feels encouraged. So, you know that comes as a result of this kind of an activity.

So, this is an example of a balanced scorecard you can see you know here there are some more activities here all 4 then help you achieve excellent customer satisfaction. So, you can see how these things are broken up you know in a balanced scorecard anyway.

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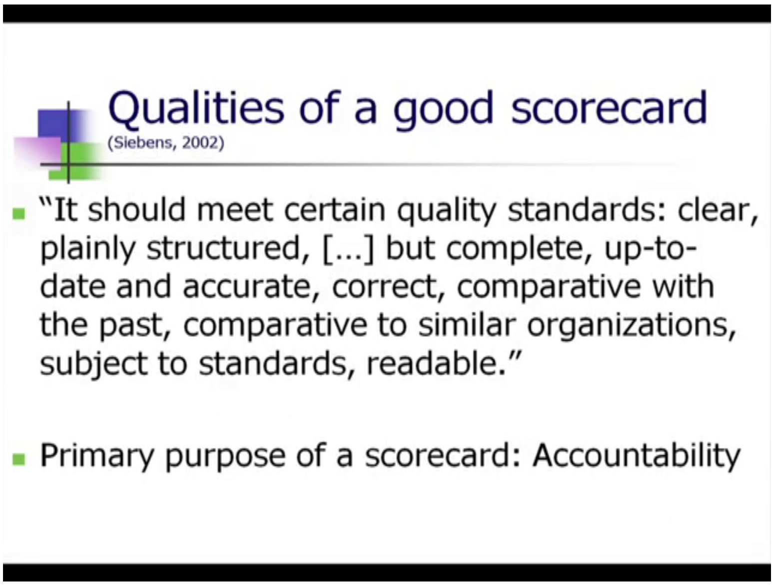

So, what are the qualities of a good scorecard it should meet certain quality standards, it should be clear it should be plainly structured, but complete up to date and accurate correct comparative with the past comparative to similar organizations subject to standards and readable.

So, it should be easy to grasp why because the primary purpose of a scorecard is accountability people who are reading who are making sense of a scorecard should understand why it has been you know given to you and so, going back to our previous discussion here we were talking about what the board of directors must do. They must have they must convey clear information to their stakeholders to the members who have elected them, and to the management that they are going to supervise and then in doing so, there the information that they pass and I am repeating myself the information that they pass should be adequate, it should be neither too much nor too little and it should be sent in time to people who usually do not have very much time to read it ok.

So, it should be sent in time and it should be in a format that is readable that is easy to understand that is quick to grasp you know a scorecard where everything is in the form of a table is so quick, it is so, so comfortable you know you have everything out in the form of an info graphic. So, you read it and it is just in front of you and you can make sense of it in a flash like this. So, that would help them here.

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Yeah what are committees now? Committees are they work under the order of and within the board the actual authority to make decisions stays with the board.

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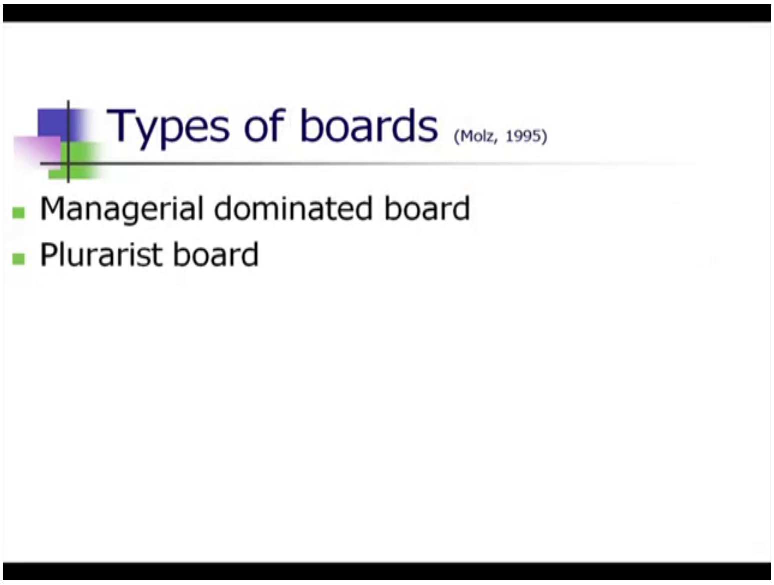

So, committees are constituted when something needs more looking at something needs more looking after. Now we have a different types of boards, but maybe we can stop the discussion here and we can continue with types of boards in another class because that will take a little bit more time. So, I will stop the discussion about this here and we will continue with types of boards in the next class.

Thank you very much for listening.