The India Board Report 2009

# Board Composition Effectiveness and Best Practices

**Discipline & Transparency**
Is the company transparent in its operations and declares its financials as per regulations?

**Regulatory Compliance**
Are companies structuring their boards and as per regulatory norms? Are the new compliance requirements seen as an irritant?

**Fairness & Corporate Sustainability**
Is the company actively involved with Corporate Social Responsibility (CSR) activities?

**Independence**
Is the Indian corporate board independent in its functioning?

**Board Effectiveness**
How do corporate boards rate themselves on effectiveness? How can board effectiveness be increased?

**Accountability & Responsibilities**
What are the key responsibilities of corporate boards in India?

AZB & PARTNERS
ADVOCATES & SOLICITORS

HUNT PARTNERS

Co-sponsor
sas

With support from
CII
Confederation of Indian Industry

# FOREWORD

## "It is only in the aftermath of a crisis that we wonder, what went wrong"

Prior to the governance scandals at Parmalat, Royal Ahold and Shell, few believed that such failures would ever occur in Europe. In India, nobody expected anything to go wrong at Satyam, one of India's best known IT companies, which ironically received the Golden Peacock Award for Corporate Governance in 2008.

Questions have been raised about the performance/effectiveness of directors on a company's board and the impact of regulations. The Satyam debacle is bound to lead to an era of tighter regulations, possibly as stringent as the Sarbanes Oxley Act. One must, however, accept that no matter how strong a regulatory system is, it cannot always prevent frauds. The key lies in management decisions and its commitment to establish and follow rigorous governance systems. The implementation must be in the letter and spirit, and one should recognise the responsibility of the company towards its stakeholders.

The AZB Hunt Partners India Board Report - 2009, now in its second edition, continues its focus on the 'State of Corporate Boards' in India. The report aims to identify areas of improvement which would enable the management to increase the board's effectiveness and build stakeholder confidence.

The findings highlight a great need for an increase in board evaluation. Only a third of company boards evaluate their own performance, and of these a majority do a self-assessment. Additionally, when 82.5% of directors indicate that their roles and responsibilities are not clearly defined, it becomes difficult to assess the effectiveness of the board as a whole. The report also indicates that important issues like leadership development, succession planning, setting CEO objectives and reviewing performance are not accorded due importance, as is the case in most Fortune 500 companies.

The current economic crisis increases the urgency for confidence building measures. We hope that in light of the Satyam scandal, organisations will strive for a deeper level of engagement between the board and the management. The adoption of some core views expressed by Independent Directors in this report will be a step in the right direction.

Sunit Mehra I Zia Mody

# CONTENTS

# SCOPE AND METHODOLOGY

The report focuses on gauging the effectiveness of corporate boards, impact of regulations, and also identifies the best practices followed

The India Board Report–2009 (IBR 2009) is a first of its kind, definitive survey on Board Composition, Effectiveness and Best Practices. Through the medium of in-depth surveys and questionnaires, the report aims to highlight the functioning of corporate boards in India.

The study consists of a two-part survey across:

- Leading Indian companies (Survey I)
- Eminent Independent Directors (Survey II)

Survey I was aimed at studying statistical data around boards in India, and targeted over 400 companies. Selection of companies was based on the following criteria:

- The top 350 companies by market capitalisation listed on the Bombay Stock Exchange
- 25 emerging companies having high growth (measured by market capitalisation)
- 25 companies that have attracted large private equity investments

For every company, the survey included the following topics:

- Board demographics (age, size, diversity)
- Committees, board meetings and related workload
- Board evaluation and the procedure for selection of chairperson
- New committees including Corporate Social Responsibility (CSR)
- Selection of Non-Executive Directors
- Directors' Remuneration
- D&O insurance

Survey II was aimed at obtaining the views of over 100 eminent Independent Directors regarding the functioning of Indian boards, including compliance, independence, and over all management. They were also requested to rate their respective boards on effectiveness and identify the boards' priorities. The topics covered in the survey include:

- Compliance and satisfaction levels of directors with the current structure/composition of their boards
- Time invested, and processes used for monitoring and evaluating boards' performance
- Corporate issues reviewed by the board
- Accountability and accessibility
- Key responsibilities and priorities for corporate boards in India
- The extent of directors' involvement and effectiveness in meeting compliance requirements
- Effectiveness of corporate boards

IBR - 2009 is based on the responses to the above two surveys. More than 80% of the directors participating in the survey have been Independent Directors for over 6 years and sit on an average of 9 company boards. Additionally, the report highlights recent changes in the regulatory environment in India and also discusses issues pertaining to corporate governance across the globe.

While there seems to be a convergence in the governance principles being adopted, laws of individual countries reflect variations in the local cultural framework

## GLOBAL GOVERNANCE PRACTICES

In the aftermath of the Enron and WorldCom debacle, there has been a concerted effort to strengthen laws on corporate governance across the globe. Several countries reviewed their governance/regulatory systems, including the USA, which implemented the Sarbanes Oxley Act, thereby imposing stricter regulations on companies listed in the country.

Other countries where policy makers have reviewed corporate governance codes include UK, South Africa, Italy and Japan. These countries have developed systems that monitor director selection, compensation practices, accounting and audit policies. While there seems to be a convergence in the governance principles being adopted, laws of individual countries reflect variations in the local framework.

The Financial Reporting Council (FRC) in the UK introduced the Combined Code on Corporate Governance for companies listed in the country. A key feature of this code is the 'comply or explain rule'–companies must comply with the code's detailed clauses or explain their reasons for non-compliance. The rule thus takes into consideration the individual circumstances that a company may face. Derivatives of this rule are being used in many countries, especially in Europe. The ruling forms the basis of the European code-based approach to corporate governance.

Europe's focus on corporate governance increased with the highly publicised failures at Parmalat (Italy) and Royal Ahold (Netherlands). In the case of Parmalat, investigations revealed mismanagement of company funds by the promoter family as one of the major reasons for the collapse of the company. The Conference Board[1] cited that "Fraudulent transactions at Parmalat were possible because of affiliations between directors and owners, independent board members' lack of expertise in finance and risk management, and corrupted entanglements with statutory auditors and the investment banks engaged by the company to place risky debt securities among retail investors". At the time of the scandal, Parmalat already had the lowest corporate governance rating among 69 Italian companies rated by Institutional Shareholder Services (ISS).

In order to improve market perception and induce investor confidence, the European Union approved and adopted two directives.
The Statutory Audit Directive, effective from June 2006, was designed to strengthen accounting practices. It also enumerated ethical principles to help ensure objectivity and independence. The Company Reporting Directive introduced rules that required companies, whose securities are traded on a regulated market, to produce a corporate governance statement in their annual reports.

Global institutional investors from countries such as the USA prefer investing in companies that are well-governed, have transparent operations, and follow good accounting standards. Fund managers that manage billions of dollars in assets also prefer to invest in companies with excellent corporate governance practices.
The US pension fund, California Public Employees Retirement System (CalPERS), and investment manager TIA CREF are among leading global institutions that have emphasised transparency and good accounting practices.

[1] The Conference Board, Inc. is a non-profit global business organisation that holds conferences, convenes executive meets and conducts business management research.

Both, Clause 49 and the Companies Bill, 2008, specify the appointment of a minimum of 33% Independent Directors on a company's board

## THE INDIAN SCENARIO

Corporate governance practices in India have been influenced by changes in the Companies Act, 1956, and demand for international compliance norms, especially sought by global investors. India has come a long way since the first corporate governance framework based on the Kumarmangalam Birla Committee's recommendations.

As foreign investments increase in India, international investors demand the implementation of improved corporate governance norms, backed by sound accounting practices. Clause 49 of the Listing Agreement, adopted in the year 2005, has heralded a number of key changes in governance and disclosure practices. The agreement primarily aims to protect the rights of shareholders by strengthening the role of Independent Directors on the company's board.

## INDEPENDENT DIRECTORS

Both, Clause 49 and the Companies Bill, 2008[2], specify the appointment of a minimum of 33% Independent Directors on a listed public company's board, subject to conditions. The Companies Bill, 2008 is expected to make the same clause mandatory for unlisted public companies as well. The true independence of directors, however, has often been questioned due to India's family/promoter based ownership structure. There is a perception that companies hire Independent Directors who rarely oppose decisions made by management/promoter.

In 2007, SEBI made a few mandatory changes to Clause 49 with an aim to strengthen corporate governance in India. The provisions called for declaration of any relation between Independent

[2] The Companies Bill, 2008 was meant to replace the Companies Act, 1956

Directors and the company. Companies are also expected to ascertain that Independent Directors have the requisite qualifications and experience to effectively contribute to the company (this is not mandatory).

## GOVERNMENT INITIATIVES

Corporate transparency and good accounting practices act as a strong driver for foreign investments. In keeping with this philosophy, the Indian government has been proactive in creating the right kind of norms and policies to attract greater foreign investment. Foreign Direct Investment (FDI) in India increased by 45% from US$ 22 billion in FY2006-07 to US$ 32 billion in FY2007-08. FIIs invested approximately US$ 17.2 billion in the equity markets over the same period. An increase in the inflow of foreign investments has spurred the cause of good governance in the country, by motivating numerous companies to increase their governance standards. India is consistently ranked among the most preferred investment destinations for transnational corporations.

### COPORATE GOVERNANCE TRAINING

With the increasing adoption of corporate governance norms and processes, there is a greater demand for knowledgeable professionals and research institutes in this field. The National Foundation for Corporate Governance (NFCG) was set up by the Government with the goal of promoting better corporate governance practice in India. The Ministry of Company Affairs, CII, the Institute of Chartered Accountants of India (ICAI), and the Institute of Company Secretaries of India (ICSI) are the trustees of the NFCG. In 2007, the Government began setting up the Indian Institute of Corporate Affairs, a governance think-tank and training institute, to build knowledge and increase the number of professionals.

### THE MCA–21 E–GOVERNANCE INITIATIVE

The MCA–21 is India's largest e-governance initiative and has been promoted by the Ministry of Corporate Affairs. The project aims to expedite the entry and exit of companies in India and provide for easier compliance monitoring under the Companies Act, 1956. The MCA-21 solution is a web portal which can be used to resolve multiple contract issues. The government intends to use the e-governance solution to detect and prevent corporate fraud by electronically monitoring company financials.

As of 2008, the Ministry of Corporate Affairs was in the process of revamping the portal. The portal which gets about 1.7 million hits a day is being upgraded to provide analytical outputs through the use of XBRL (extensible business reading language), an IT-based system that is becoming popular globally. This initiative is expected to help improve a company's image before its shareholders, creditors, business partners, customers and other stakeholders.

## CHANGES IN COMPANY LAW

In 2004, the Indian Government embarked on a comprehensive review of the Companies Act, 1956. The aim was to strengthen compliance norms and provide a governance structure for unlisted firms. The Companies Bill, 2008 has been based on best international practices and fosters entrepreneurship. In August 2008, the Union Cabinet provided its assent for the introduction of the bill in the Lok Sabha, the lower house of the Indian Parliament. The bill has lapsed with the dissolution of the house and it would have to be re-introduced in the new regime with the approval of the cabinet. Some of the features of the bill provide for the following:

- Easy transition of companies operating under the Companies Act, 1956 to the new framework, as also from one type of company to another

- The formation of a new entity in the form of One-Person Company (OPC) while empowering the government to provide a simpler compliance regime for small companies
- The promotion of the Ministry of Corporate Affairs e-Governance (MCA-21) initiative, which enables the meeting of compliance objectives through the electronic mode
- Speedy incorporation process, with detailed declarations/disclosures about the promoters, directors, etc. at the time of incorporation itself - every company director would be required to acquire a unique Directors Identification Number (DIN)
- A more effective regime for inspections and investigations of companies while laying down the maximum as well as minimum quantum of penalty for each offence, with suitable deterrence for repeat offences
- Restriction on corporations from issuing shares at a discount to prevent promoters from accumulating stake for a lesser price
- Special Courts to deal with offences under the bill. Company matters such as mergers & accquisitions, reduction of capital, insolvency including rehabilitation, liquidations and winding up are proposed to be addressed by the National Company Law Tribunal/National Company Law Appellate Tribunal
- Duties and liabilities of the directors and for every company to have at least one director resident in India. The bill also provides for Independent Directors to be appointed on the Boards of such companies as may be prescribed, along with attributes determining independence. The requirement is to ensure that Independent Directors form a minimum of 33% of the Board.

The law also enables Shareholders Associations/Group of Shareholders to take legal action in case of any fraudulent activity on the part of the company, and take part in investor protection activities and 'Class Action Suits'. The Companies Bill, 2008 is essentially a replacement of the Companies Act, 1956.

## CLAUSE 49 OF THE LISTING AGREEMENT

In order to strengthen corporate governance in India, SEBI made certain amendments to Clause 49 of the Listing Agreement, in 2008.

### MANDATORY PROVISIONS

- If the Non-Executive Chairman is a promoter or is related to promoters or persons occupying management positions at the board level or at one level below the board, at least one-half of the board of the company should consist of Independent Directors
- Disclosure of relationships between directors inter se shall be made in the Annual Report, as also any notice of appointment of a director, prospectus and letter of offer for issuances, and any related filings made to the stock exchanges where the company is listed
- The gap between resignation/removal of an Independent Director and appointment of another Independent Director in his place shall not exceed 180 days. This provision, however, would not apply in case a company fulfills the minimum requirement of Independent Directors in its board, i.e., one-third or one-half as the case may be, even without filling the vacancy created by such resignation/removal
- The minimum age for Independent Directors shall be 21 years

### NON-MANDATORY PROVISIONS

The company shall ensure that the person who is being appointed as an Independent Director has the requisite qualifications and experience. These qualifications would be of use to the company, which in its opinion would enable the director to contribute effectively to the company in his capacity as an Independent Director.

These provisions have increased the demand for qualified/experienced individuals who are capable of taking up this role. The number of such individuals, who are deemed qualified, is low in India. The position of Independent Directors also needs to be strengthened in order to increase a board's efficiency. Mr. M. Damodaran, the former Chief of SEBI, stated that, "It may be a good idea, to have a body of Independent Directors meet separately outside the board meeting."

## BEST PRACTICE IMPLEMENTATIONS

Corporate governance is best implemented when there is complete support from a company's management and its promoters/majority shareholders. It requires driving governance initiatives in a company's day-to-day operations through a disciplined approach in building transparency. A few practices have emerged that appear to be effective in meeting governance objectives. The following cases illustrate award-winning corporate governance practices:

### NEXEN, INC. (CANADA)

Nexen, Inc., formerly known as Canadian Occidental Petroleum (CanadianOxy), is an oil and gas and chemicals company based out of Canada. The company is also involved in power marketing in North America, Europe and Southeast Asia. Nexen reported revenues of US$ 6.64 billion in the year 2007.

Nexen is listed on both the Canadian (Toronto) and the US stock exchanges (NYSE) and has often been recognised as a leader in the implementation of corporate governance and compliance systems. The company is governed by the US Sarbanes-Oxley Act, and the NYSE and Canadian stock exchange regulations.

Corporate governance is best implemented when there is complete support from a company's management and its promoters/majority shareholders

### NEXEN'S APPROACH

Nexen follows a well-defined corporate structure focused on ethics, transparency and open communication across the organisation. The company has a highly informative website that incorporates all the aspects of corporate governance and compliance systems. Nexen has provided detailed information about its board in terms of the directors' selection, independence, presence of committees, and board evaluations on its website.

Nexen's Governance Committee assists the board in overseeing the implementation of corporate governance programmes, recommending nominees for director appointments and evaluating the board, its committees and all individual directors and chairs. The company has made available all documents and information that is required by law. It effectively uses its website to communicate the progress of the company (business strategy, finances, new ventures, etc.) to the stakeholders. As a result, the website improvises stakeholder communication by enhancing information accessibility.

Nexen has received two awards - Excellence for Electronic Disclosure and honourable mention for Excellence in Corporate Governance Disclosure - at the 2007 Corporate Reporting Awards, presented by Canada's Chartered Accountants. The company was ranked first in the Canadian Business Magazine's 2007 Corporate Governance rankings with SNC-Lavalin Group Inc. (a leading Canadian engineering and construction company).

## INFOSYS TECHNOLOGIES LTD. (INDIA)

Infosys Technologies Ltd. is one of the largest Indian IT services companies with revenue of US$ 4.17 billion in the year 2008. Mr. N. R. Narayana Murthy, Chairman and Chief Mentor of Infosys, led key corporate governance initiatives in India and his move to adhere to the best global practices was driven by a vision to mould Infosys into a global player. The company is listed on the NASDAQ (US), Bombay Stock Exchange (BSE - India) and the National Stock Exchange (NSE - India).

The company's corporate governance practices conform to the recommendations of the Confederation of Indian Industries (CII) committee and the Cadbury committee on corporate governance, with a few exceptions. Infosys adheres to GAAP accounting standards of seven major countries, providing financial transparency in its operations. According to the NASDAQ, multinational companies in the USA take up Infosys' disclosure and corporate governance practices as a role model.

### THE INFOSYS APPROACH

Infosys includes a report on its compliance with governance standards in six countries within its annual report. The report is issued in each of these countries' languages for the benefit of local shareholders. The company provides details on all relevant information regarding the firm. Compliance initiatives of the company reflect a transparent shareholding pattern, sound board practices, interactive decision-making processes, a high level of transparency and disclosures encompassing all important aspects of its operations.

Infosys has also undergone corporate governance audits by ICRA and CRISIL. The company's corporate governance practices have been rated as CGR 1 by ICRA, and CRISIL has bestowed the highest GVC (Governance and Value Creation) rating of 'CRISIL GVC Level 1'. In 2008, the Asset magazine declared Infosys as the best company in India in corporate governance. Infosys was also recognised for best practices and online communication in Investor Relations (IR) Global Rankings 2008 for the APAC region.

## ROYAL PHILLIPS ELECTRONICS (NETHERLANDS)

Royal Phillips Electronics is a provider of electronic systems and technology and is a leader in healthcare, lifestyle and lighting products. The company is headquartered in the Netherlands and is organised under Dutch law. Royal Phillips reported revenues of US$ 37.19 billion in 2008. It is listed on the New York (NYSE) and Euronext Amsterdam (PHI) stock exchanges. The company has actively pursued the implementation of governance norms in conformity with the Dutch, the USA and international codes of best practices. Royal Phillips focuses on having an executive management team that is accountable, an independent board, and a fair disclosure practice in relation to its investors.

### THE ROYAL PHILLIPS APPROACH

The company has a well-structured corporate governance framework which also includes risk management. Royal Phillips has a Supervisory Board, Audit Committees and internal auditors that monitor the quality of business, through risk-based operational audits, inspections of financial reporting controls and compliance audits. Royal Phillips has the 'One Phillips Ethics Line' in place to deal with alleged violations, as a part of its whistleblower policy. The company has in place many procedures/initiatives to maintain transparency across its operations, which includes the monitoring of any gifts given to third parties.

Royal Phillips has implemented Control Objectives for Information and Related Technology (COBIT) to manage its IT governance process, and to improve its IT-related control framework. The COBIT framework also contributes at the business management level. The Reputation Institute has rated Royal Phillips as the company with the best reputation in the Netherlands in 2008.

## MAHINDRA & MAHINDRA LTD. (INDIA)

Mahindra & Mahindra (M&M) is one of India's best known industrial groups, with a presence in financial services, trade, retail and logistics, automotive components, information technology and infrastructure development. The US$ 6.7 billion group is listed on both, the National Stock Exchange (NSE) and the Bombay Stock Exchange (BSE).

### THE MAHINDRA & MAHINDRA APPROACH

M&M is of the view that in order to achieve true transparency, it is necessary to imbibe the requisite governance principles in the belief system of the organisation. For this purpose, M&M has developed an internal Code of Corporate Governance, which affirms the total commitment of the management towards transparency. The company has also prescribed a Code of Conduct for both the board of Directors and senior management. M&M's annual report contains detailed information concerning the operations of the company and it's board.

M&M is now known as an Indian conglomerate that is well-regarded for transparency in its operations. The USA-based Reputation Institute has ranked it among the top 10 Indian companies in its 'Global 200: The World's Best Corporate Reputations list'. The company is also one of the few Indian firms to receive an A+ GRI checked rating for its Sustainability Report for the year 2007-08. M&M received the ICSI National Award for Excellence in Corporate Governance for the year 2008.

## AGENDA NO. 1

### REGULATORY COMPLIANCE

Among the changes needed in the current board structure, directors would like to see more diversity in the board room

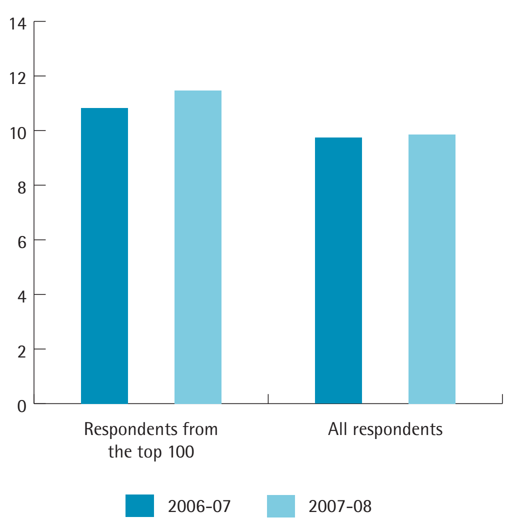
Investor confidence is built when companies comply with requirements specified by the government/regulators. These include board composition & structure, accounting & reporting standards, the presence of board committees and the like. Compliance with these norms helps organisations to build confidence in its operations and profitability.

## STRUCTURE OF THE INDIAN BOARD

Directors in India are broadly satisfied with the structure of their boards–average rating of 3.32 on a scale of 4. In 2007-08, the average number of directors on a company's board increased from 9.74 (2006-07) to 9.87. In contrast this number was 10.83 in 2006-07 and 11.46 in 2007-08 for the respondents that belong to the top 100 companies of India. The board size of companies in India generally ranges from 6 to 15 members.

**FIGURE 1: AVERAGE SIZE OF BOARDS IN INDIA**

FIGURES REPRESENT BOARD SIZE



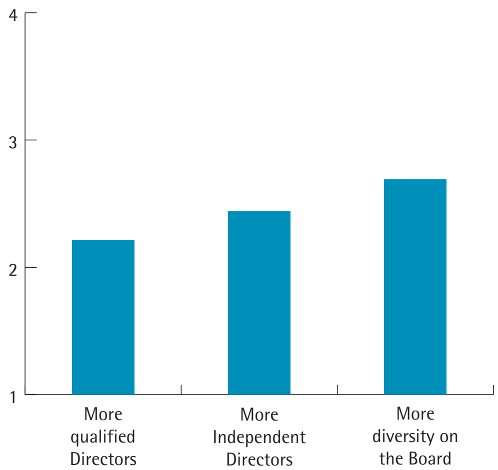

In 2007-08, the average number of directors on a company's board increased from 9.74 in 2006-07 to 9.87

## CHANGES NEEDED IN THE BOARD STRUCTURE

Among the changes needed in the current board structure, directors would like to see more diversity in the board room and an increase in the number of Independent Directors. Moreover, directors would like to see more qualified professionals who have experience in setting up and managing businesses, as directors.

### FIGURE 2: DESIRED CHANGES IN BOARD STRUCTURE

FIGURES REPRESENT RATINGS (4=MOST REQUIRED)




## THE AVERAGE NUMBER OF WOMEN DIRECTORS REMAINS CONSTANT

The need for diversity in the board room has brought about a demand for more women directors on a company's board. The survey indicates that approximately 40% of the companies had at least one woman director on their board in 2007-08.

While the number of Independent Directors on the board has seen an upward trend in India, the same cannot be said about women directors. The average number of women directors on a company's board has remained constant at 1.17 over the last two years. Research by Harvard Business Review indicates that women directors are likely to make three main contributions to a company's board:

- They broaden a board's discussion to better represent a wide set of stakeholders; including employees, customers, and the community at large
- They are more persistent in pursuing solutions to problems
- They tend to bring a more collaborative approach to leadership

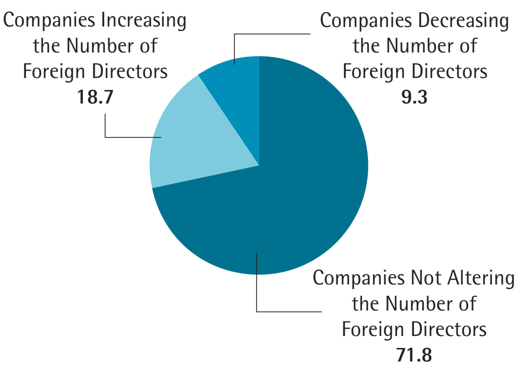
Globally, there has been a visible trend of increasing the number of women on corporate boards. The proportion of women serving on Fortune 500 boards was 15% in 2007, while in India they accounted only for 4.6% of boards in 2007-08.

## THE NEED FOR FOREIGN DIRECTORS

Globalisation has led to companies expanding in various sectors/countries across the world. It has become a part of standard practice to have foreign directors with significant experience in the markets where those companies have a presence or intend to expand in. The survey indicates that 52% of the companies had at least one foreign director on their board in 2007-08.

### FIGURE 3: COMPANIES ALTERING THE NUMBER OF FOREIGN DIRECTORS

IN PERCENTAGE



Among the companies surveyed, 22.5% altered the number of foreign directors on their board, while 15% increased the same. The average number of foreign directors on a company's board has increased from 2.10 in 2006-07 to 2.25 in 2007-08, a rise of 7.1%.

## CHALLENGES IN CHANGING BOARD STRUCTURE

A well-defined board is vital to manage, direct and control the conduct and operations of a company. The survey indicates that directors view the lack of talented Independent Directors as a major hindrance to changing a company's board structure.

**FIGURE 4: IMPEDIMENTS IN CHANGING BOARD STRUCTURE**

FIGURES REPRESENT RATING (4=MAX IMPEDIMENT)


The survey indicates that directors view the lack of talented Independent Directors as a major hindrance to changing a company's board structure

However, it has been observed that not too many young entrepreneurs were holding these positions during 2006-07 and 2007-08

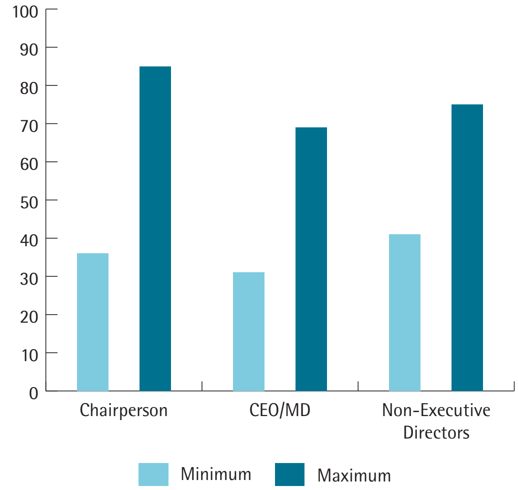
Contrary to the findings presented in IBR - 2007, the absence of a well-defined selection process for Independent Directors was highlighted as a greater impediment to change in the board structure, vis-à-vis their unwillingness to change.

## AGE AND TENURE OF CEO/MD, CHAIRPERSON AND NON-EXECUTIVE DIRECTORS

The survey indicates that the average tenure of Non-Executive Directors is generally less than that of CEO/MDs and Chairpersons. In 2007-08, the maximum tenure for which an Independent Director had been on a company's board was 21.8 years, while the maximum tenure for which CEO/MDs and Chairpersons had served on any board was 40.9 and 47.9 years respectively.

**FIGURE 5: MINIMUM & MAXIMUM AGE FOR DIRECTORS**

FIGURES REPRESENT AGE




The average age of Chairpersons, CEO/MDs and Non-Executive Directors has remained constant at 60, 52 and 61 years, respectively, over the past two years. However, it has been observed that not too many young entrepreneurs were holding these positions during 2006-07 and 2007-08.

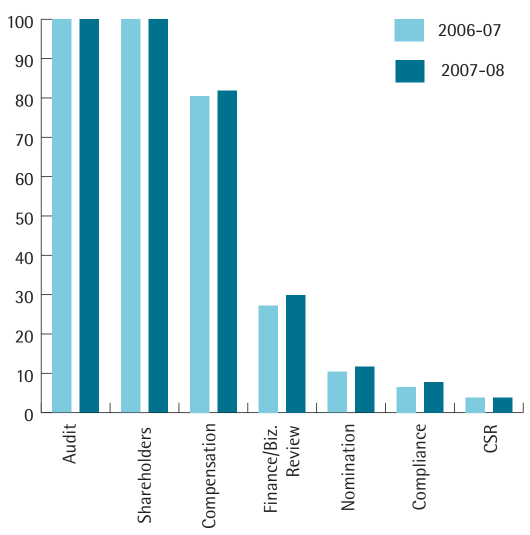
The survey revealed the following specifics for the years 2006-07 and 2007-08;

- Chairpersons below the age of 60 was constant at 50%
- CEO/MDs below 50 years of age decreased by 13.2%
- Non-Executive Directors below the age of 55 saw a drop of 11.8%

## RISE IN THE NUMBER OF COMMITTEES ACROSS COMPANIES

The survey has indicated that corporate boards in India have an average of 4 committees per company. In 2007-08, the minimum number of committees per company was 2, while the maximum was 8. Clause 49 of the Listing Agreement makes it mandatory for companies to have an Audit and Shareholders' Grievance Committee. As of 2007-08, 100% of the companies surveyed had Audit and Shareholder Committees.

FIGURE 6: SPREAD OF COMMITTEES ACROSS COMPANIES
IN PERCENTAGE




The survey has indicated that corporate boards in India have an average of 4 committees per company

In most cases, ensuring regulatory compliance is one of the responsibilities of an Audit Committee. However, 7.8% of companies in India had a separate Compliance Committee to ensure the same. Additionally, 81.8% of the companies surveyed had a Remuneration Committee, 29.9% had a Finance/Biz Review Committee and 11.7% had a Nomination Committee.

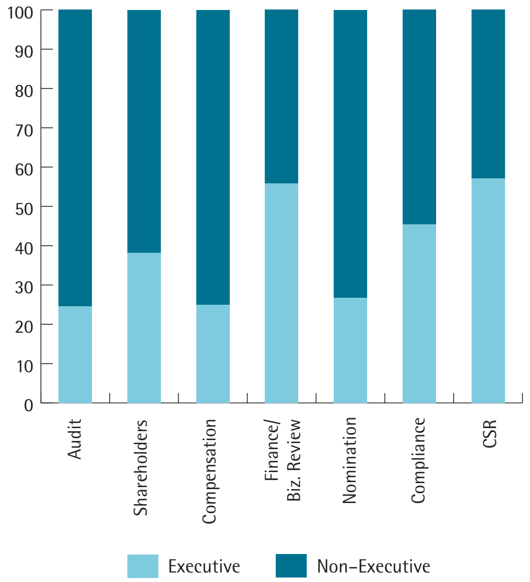
The number of 'Other Committees' increased from 33.8% in 2006-07 to 39% in 2007-08. Other Committees included Investment, Strategic Business Development, Risk & Fraud Monitoring, etc. In 2007-08, an average of 16.3% companies introduced new committees with 3 being the maximum.

## COMPOSITION OF BOARD COMMITTEES

Board committees had an average of 3.5 directors per committee in 2007-08. They also had a minimum of 3 and maximum of 9 directors per committee in 2007-08. The average number of Non-Executive Directors per committee was 2.5 in 2007-08. The survey revealed that in most of the committees, the number of Non-Executive directors exceeded the number of Executive directors. Finance/Biz Review, and CSR are the only committees which showed a different composition. Non-Executive Directors formed more than 70% of the Audit, Compensation and Nomination Committees each.

FIGURE 7: COMPOSITION OF COMMITTEES

IN PERCENTAGE

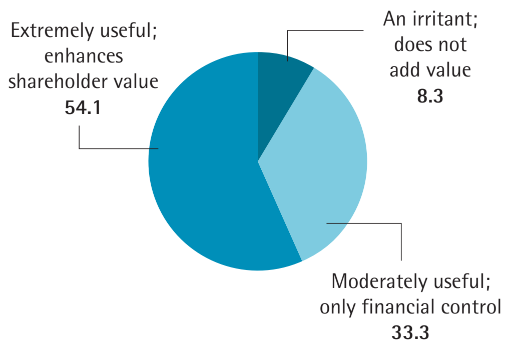



## OPINION ON CLAUSE 49 & RELATED REGULATIONS

Opinion on the value of Clause 49 was mixed. Over 54% of directors believed that Clause 49 of the Listing Agreement enhances shareholder value. Around 33% of directors considered the clause to be moderately useful as it only enforces financial control through periodic audits.

**FIGURE 8: OPINION ON CLAUSE 49**

IN PERCENTAGE




A majority of the directors are highly involved in ensuring compliance with regulations, such as Clause 49, SEBI Corporate Governance Code and Listing Agreements. On an average they rated a board's involvement in such activities at 3.69 on a scale of 4.

## INCREASING NUMBER OF COMPANIES PROVIDING D&O INSURANCE

The number of companies providing D&O insurance increased from 69% in 2006-07 to 76% in 2007-08. Conversely, the average premium paid by companies declined from INR 23.56 lakhs to INR 19.12 lakhs over the same period. Similar trends were reported in the IBR - 2007.

AGENDA NO. 2

DISCIPLINE & TRANSPARENCY

Only 45% of directors indicated that their companies provide financials in international GAAP where Indian standards vary

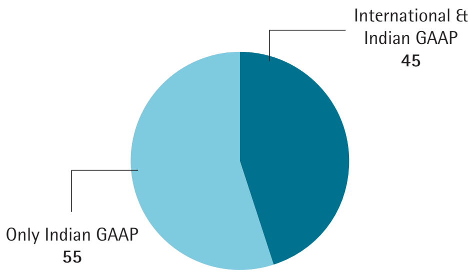
Companies that aim to attract investments and maintain shareholder confidence are constantly focused on building a sustainable business model. With a goal of ensuring transparency, companies should focus on disclosing all required details about their operations. Information pertaining to a company's board structure, governance and audit mechanisms, financials etc. should be made available in the public domain.

## FINANCIAL DISCLOSURE

Laws determine the timeline and format for the declaration of a company's financial statements. Presently, an Indian corporate entity is required to present quarterly and annual financials in Indian GAAP. Owing to the diverse and often, international nature of the investor community, companies may also be required to prepare their financial statements as per international GAAP.

FIGURE 9: ACCOUNTING STANDARDS FOLLOWED

IN PERCENTAGE




With a goal of ensuring transparency, companies should focus on disclosing all required details about their operations

Co-sponsor

With support from

Confederation of Indian Industry

Directors have rated the representation of accounts and financial statements in a company's annual report at 3.68 on a scale of 4

Only 45% of directors indicated that their companies provide financials in international GAAP where Indian standards vary. However, with India scheduled to adopt the International Financial Reporting Standards (IFRS) by the year 2011, this issue is expected to be resolved. Directors have rated the representation of accounts and financial statements in a company's annual report at 3.68 on a scale of 4.

## VIRTUAL VISIBILITY

The penetration of the Internet has increased manifold over the past few years. Retail and institutional investors are basing their investment decisions on information available in the online space. The online space includes the information available on a company's website, its annual reports, analyst views and the financial media. Consequently, it is important that a disciplined approach be taken towards the declaration of relevant information on a company's website. This information constitutes company financials, operating and governance structures, strategic initiatives and CSR activities.

Clause 49 of the Listing Agreement stipulates that quarterly results and presentations made by a company be displayed on its website, and/or be made available to the stock exchange on which they are listed. With more Indian corporations going global, a company's website is the ideal location to display information pertaining to its practices. The clause also requires that companies present a corporate governance statement in their annual reports.

## ACCESSIBILITY OF SENIOR MANAGEMENT

Analysts and company watchers generally have queries to ask of the senior management, especially when results are declared. Most surveyed directors believed that senior management was adequately accessible to analysts after the announcement of results.

Over 70% of directors also believe that the senior management readily shares information through open discussions on risk/return in investor meetings. They indicated that the management helps guide market expectations about fundamentals in the right direction.

Increasing or maintaining adequate levels of information in the open market helps analysts/third party rating agencies in establishing the right valuations for a company. This in return helps build investor and market confidence in the company's management and the way in which it performs its day-to-day operations.

AGENDA NO. 3

BOARD EFFECTIVENESS

# There is a nascent, albeit growing demand for Indian boards to be more open to self evaluation/third party reviews

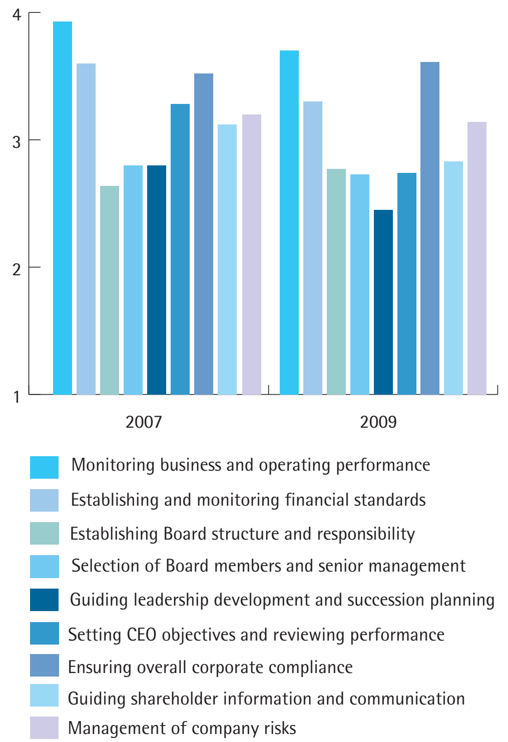
Boards are meant to act as governance mechanisms that guide the functioning of a company's operations. A company's board has responsibilities that include the monitoring of business and operating performance, the establishment of financial standards, ensuring compliance, guiding the management, and reviewing management performance. As these issues are key to the operations of a company it is imperative that a company's board is effective at executing their responsibilities.

## MONITORING PERFORMANCE: A BOARD PRIORITY

For the second time in a row, the IBR survey indicates that monitoring of business and operating performance has emerged as the top most priority of the board. Other objectives that are high on the priority list include ensuring overall corporate compliance in addition to establishing and monitoring financial standards. In comparison to the results published in IBR–2007, establishing board structure and responsibility has now moved up the priority list.

**FIGURE 10: PRIORITIES OF THE BOARD**

**FIGURES REPRESENT RATING (4=VERY CRITICAL)**




Directors believe that boards accord relatively low priority to many key issues. These issues include guiding leadership development and succession planning, selection of board members and senior management, and setting CEO objectives and reviewing performance. In such a scenario, it is difficult to ascertain how boards relate to and deal with such issues as they are vital to the operations of a company.

## REGULATORY LAWS ARE EFFECTIVE

The survey indicates that directors believe that they are most effective in ensuring compliance with regulations, which figures second on their priority list. In most of the other areas, the ranking for effectiveness coincide with the

In comparison to the last survey, boards have shown maximum improvement in ensuring overall corporate compliance and managing company risk

priority of the directors. Other areas where directors view the board as being relatively more effective include monitoring of business and operating performance, as well as establishing and maintaining financial standards.

**FIGURE 11: BOARD EFFECTIVENESS RATINGS**

FIGURES REPRESENT RATINGS (4=MOST EFFECTIVE)


In comparison to the last survey, boards have shown maximum improvement in ensuring overall corporate compliance and managing company risk.

## IMPEDIMENTS TO MONITORING BUSINESS PERFORMANCE

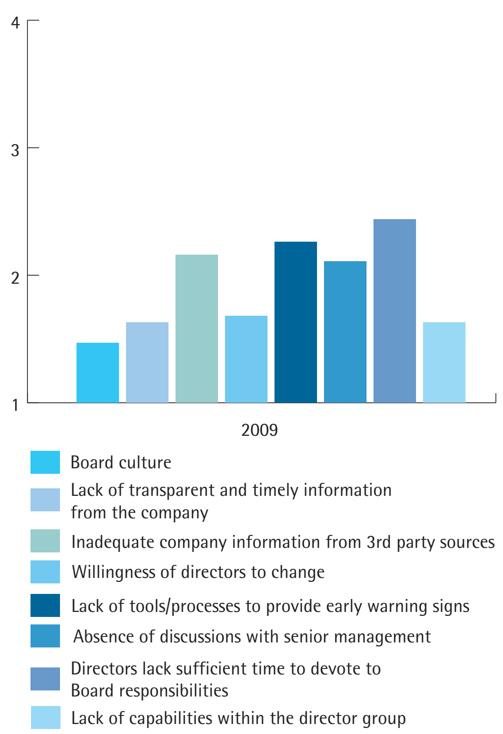
The directors surveyed are of the view that there are several major impediments to monitoring business performance. Some of the key issues highlighted are:

- Lack of adequate time devoted towards Board responsibilities
- Lack of tools/processes to provide early warning signs for situations that might affect performance
- Inadequate information from third party sources to help monitor performance
- Additionally, several of them mentioned that it would be preferable to have separate meetings with senior management

On the positive side, they were relatively pleased with their company's board culture and the capabilities of its members.

**FIGURE 12: IMPEDIMENTS TO MONITORING BUSINESS PERFORMANCE**

FIGURES REPRESENT RATINGS (4=GREATEST IMPEDIMENT)

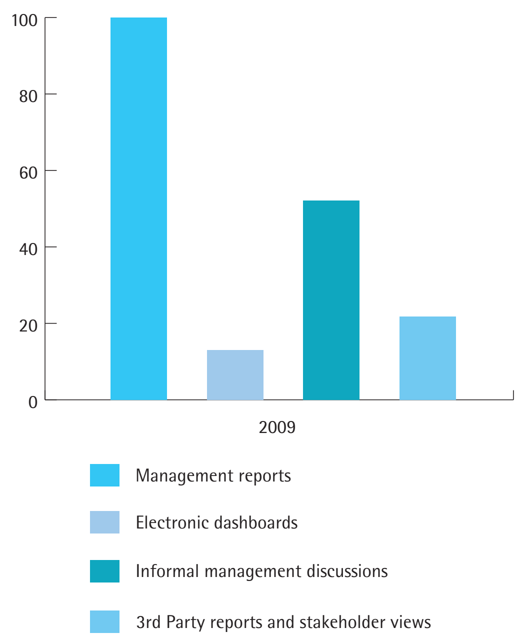



## TOOLS FOR MONITORING PERFORMANCE

Most directors rely largely on management reports for monitoring board performance. Directors base most of their decisions on these reports which are provided to them only a few days prior to a board meeting or just a few hours before the meeting commences. The survey indicates that only 52% of directors held informal discussions with management to track a company's performance. Unlike in developed markets, the use of third party reports and stakeholder reviews as a source for performance evaluation is relatively low at 22%. This can lead to Independent Directors getting blindsided on occasion, and is a major risk.

**FIGURE 13: TOOLS FOR MONITORING PERFORMANCE**

IN PERCENTAGE



Third party ratings and analyst views can be used as independent barometers for measuring a company's performance

## NEED FOR THIRD PARTY RATINGS

Third party ratings and analyst views can be used as independent barometers for measuring a company's performance. This is needed, especially in India, where a majority of companies are promoter owned and an independent ratification will only add credibility to the company's evaluation process and governance practices.

S&P (Standard & Poors) and Moody's Investor Services are well-known rating agencies whose Indian affiliates, CRISIL and ICRA, provide governance rating services. They, along with CARE (Credit Analysis & Research Ltd.), have rated over 50 Indian firms who had approached them to get their corporate governance systems evaluated. Infosys Technologies is one such company that has been highly rated by both ICRA and CRISIL. However, it is important to note that such ratings can only be used as an indicator to a company's corporate governance systems and cannot be viewed in isolation.

Ownership and board structure, management processes and governance structure, relationship with the stakeholders, transparency and disclosures, financials and ethical practices are some of the key factors considered while rating a company's Corporate Governance system.

## THE NEED FOR A PROBING AND INTROSPECTIVE BOARD CULTURE

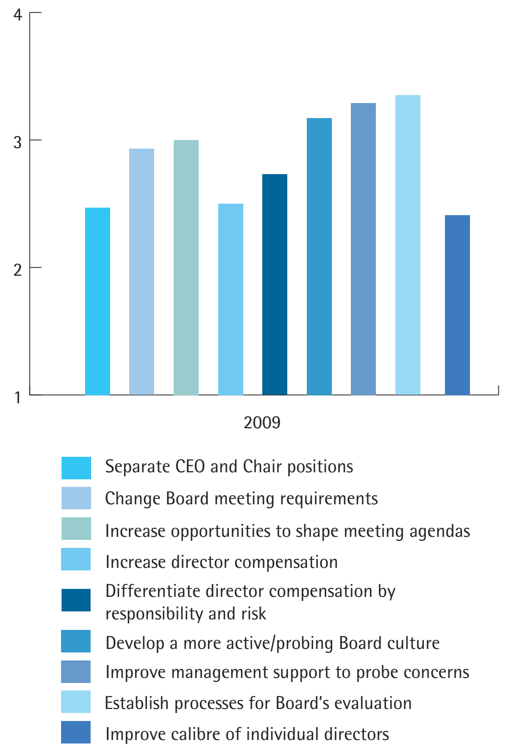
There is a nascent, albeit growing demand for Indian boards to be more open to self evaluation/third party reviews. Directors have identified the need to establish a board evaluation process as an important criterion that will help improve board performance.

Board evaluations help a company's board to review the performance of both the management and the board as a whole. It also helps identify important issues that may have been placed on the backburner. This aligns a board to issues that need attention, thereby increasing effectiveness. Such evaluations are a key requirement for companies listed on the New York Stock Exchange as well as those that are registered under the Combined Code in the UK.

Even though a board may feel that it is functioning well, it is important to translate that into perception. The survey shows that most directors believe that a board's effectiveness can be improved by conducting a self-evaluation of performance at regular intervals as well as independent evaluation via third party sources.

**FIGURE 14: CHANGES TO IMPROVE BOARD PERFORMANCE**

FIGURES REPRESENT RATINGS (4=MOST NEEDED)

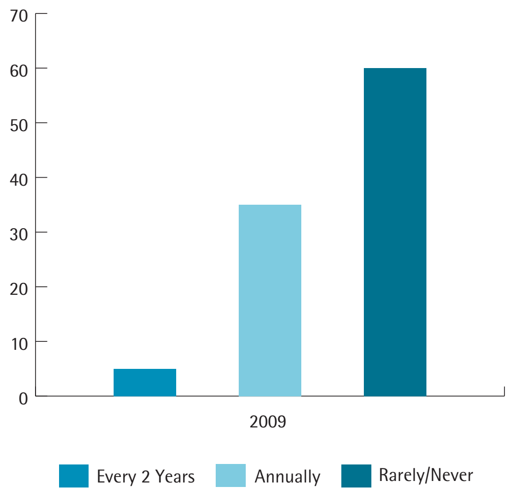



## FREQUENCY OF BOARD EVALUATIONS

Annual board evaluations are a part of good corporate governance practices and many leading corporations across the world rely on external consultants for the assessment. The need for an increase in board evaluations has been further substantiated by the results of the survey.

**FIGURE 15: BOARD EVALUATION FREQUENCY**

IN PERCENTAGE




With respect to the frequency of board evaluations, 60% of directors said that their boards do not evaluate their own performance. Of the remaining, 35% of directors confirmed that their boards perform an annual evaluation while 5% said that they evaluate their performance every two years. However, it is important to note that a majority of the board evaluations are done via self-assessment and not via third party consultants.

AGENDA NO. 4

ACCOUNTABILITY & RESPONSIBILITY

## Over 82% of the directors are of the opinion that the roles and responsibilities for Non-Executive Directors are not clearly defined and documented

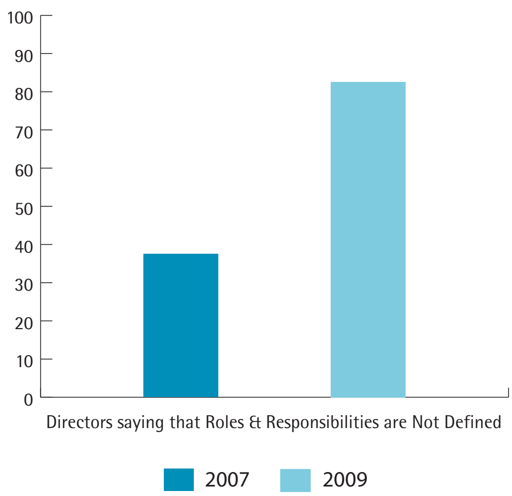
Defining directors' roles and responsibilities helps increase their efficiency. It also indicates what shareholders can expect from their directors. In times of crisis, it is the trust built between directors and shareholders that could help the company wade through difficult times.

## NO CLARITY ON PERFORMANCE REQUIREMENTS

Over 82% of directors are of the opinion that the roles and responsibilities for Non-Executive Directors are not clearly defined and documented. In the survey held in 2007, this number stood at 37.5%. This indicates a stark rise in the number of directors not knowing what is expected of them, as a part of a company's board.

**FIGURE 16: DIRECTORIAL ROLES & RESPONSIBILITIES**

IN PERCENTAGE




Some of the roles & responsibilities for directors as specified by companies across the globe include:

- The dedication of time, effort and intellectual knowledge to the board
- To provide strategic guidance and the development of business plans
- Ensuring the implementation of corporate governance practices
- To act in the interest of shareholders by monitoring and evaluating performance.

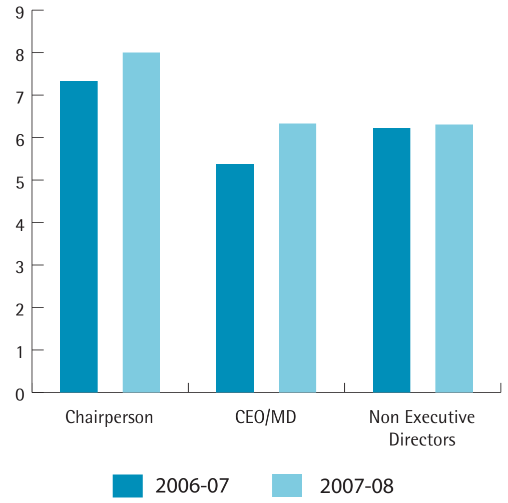
## INCREASE IN DEMAND FOR CEO/MD'S AS DIRECTORS

There was a 17.9% increase in CEO/MDs who held external Non-Executive board positions in 2007-08, (over 2006-07). This can be attributed to a spurt in demand for directors who have an entrepreneurial/managerial background. On an average, CEO/MDs sat on 6.33 boards in 2007-08. In contrast, the average Chairperson sat on 8 boards in 2007-08, representing an increase of 9.1% over the previous year. Non-Executive Directors sit on an average 6 boards and this has remained flat over the past 2 years.

In general, directors are more focussed on issues such as statutory compliance, accounts, budgets and risk management

FIGURE 17: DIRECTOR REPRESENTATION ON EXTERNAL BOARDS

FIGURES REPRESENT NUMBER OF EXTERNAL BOARDS




## A SYSTEMATIC APPROACH TO PROBLEM SOLVING

The survey highlighted numerous areas which still need to gain more attention in terms of having a systematic approach to problem solving. These include, succession planning, CSR, strategic planning and M&A and risk management. In general, directors are more focused on issues such as statutory compliance, accounts, budgets and risk management. The focus on statutory compliance can be credited to Clause 49 which stipulates that Independent Directors periodically review legal compliance reports prepared by their company.

**FIGURE 18: PLANNED APPROACH TO PROBLEM SOLVING**

FIGURES REPRESENT RATINGS (4=MOST ADDRESSED)


## BOARD/STRATEGY MEETINGS

India Inc. has seen a significant increase in the number of strategic mergers, acquisitions and investments over the past few years.

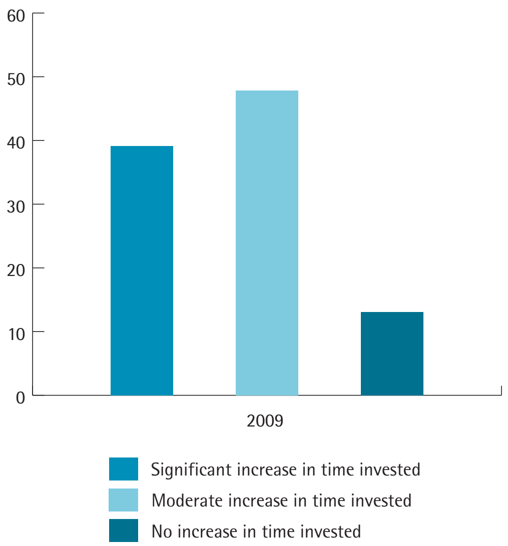
In retrospect, this was one of the key drivers for the rise in the number of board/strategic meetings held during 2006-07 and 2007-08.

A minimum of 4 board meetings were held in the year 2007-08 while the maximum was 15. Similarly, the maximum number of strategy/business review meetings where Non-Executive Directors were invited, was 9 in 2006-07 while this number stood at 12 in 2007-08.

Over 90% of directors said that documents related to issues which are to be discussed are provided to them before meetings. This indicates that companies provide directors with the necessary information to enable them to effectively contribute at board meetings. Additionally, the concept of Non-Executive Directors meeting regularly in the absence of the management is yet to catch on within Indian boards. This is considered very essential in the west. Only 34.7% of directors confirm that this practice is being followed in India.

**FIGURE 19: TIME SPENT ON BOARDS**

IN PERCENTAGE




According to the survey, 87% of directors said that there was an increase in the time they have invested on boards. Of these, 48% said that there was a moderate increase and 39% said that there was a significant increase in the time they invest. Ideally, an increase in the time spent by directors on the board should lead to an increase in its effectiveness. The survey indicates that directors have rated the effectiveness of the time spent on company boards at 3.19 on a scale of 4, in meeting expectations.

AGENDA NO. 5

INDEPENDENCE

The periodic rotation of committee members, which could ensure the committee's independent functioning, is not followed in 72% of the cases

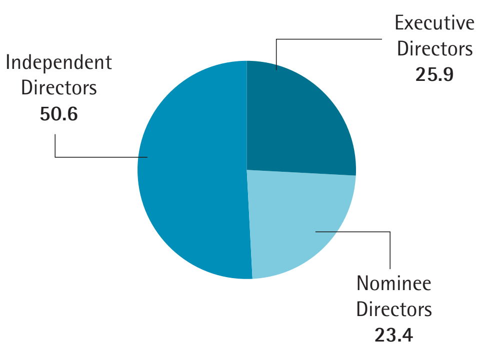
Laws and regulations are designed to ensure the independent functioning of companies. The impending Companies Bill, 2008 and Clause 49 of the Listing Agreement make certain that corporate boards are empowered to question and probe the functioning of a company's operations. This will be achieved by strengthening the role of audit committees and ensuring the true independence of Independent Directors on a company's board.

## NUMBER OF INDEPENDENT DIRECTORS INCREASES

Bringing about an optimum balance of Executive and Non-Executive Directors was one of the objectives of the amendments made in Clause 49. An increase in the number of Independent Directors, seen in the past few years, is a reflection of the companies moving towards this direction. There was a 2.1% increase in the number of Independent Directors in 2007-08 over 2006-07, while there was a corresponding increase of 5.1% in 2005-06 over 2004-05.

**FIGURE 20: COMPOSITION OF THE INDIAN BOARD**

IN PERCENTAGE



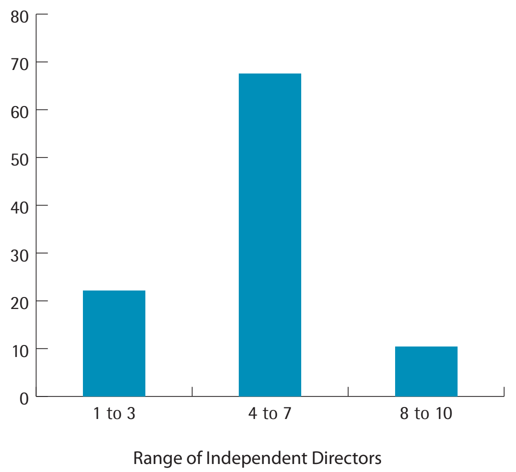

There was a 2.1% increase in the number of Independent Directors in 2007-08 over 2006-07, while there was a corresponding increase of 5.1% in 2005-06 over 2004-05

Independent Directors formed 50.6% of the average board size which was 9.87 in 2007-08. Clause 49 states that if a board has a Non-Executive Chairman then the board should have one third of its members as Independent Directors; a condition fulfilled by 98% of the survey respondents. Around 36% of the companies changed the number of Independent Directors present on their boards in 2007-08 while it remained the same in 27.3% of the cases.

Approximately 78% of the companies had more than 4 Independent Directors on their board, in 2007-08. Of these, 67.6% had Independent Directors in the range of 4 to 7 directors, while 10.4% companies had them in the range of 8 to 10 directors. In 2007-08, the minimum number of Independent Directors on a company's board was 2 and the maximum 10.

**FIGURE 21: NUMBER OF INDEPENDENT DIRECTORS IN A COMPANY**

**IN PERCENTAGE**




## LEAD INDEPENDENT DIRECTORS

A Lead Independent Director performs the functions of providing leadership and guidance to Non-Executive Directors and acts as an advisor to the board chairperson. The role holds great value especially when a company's board is led by an executive chairperson. In such cases, the position holds authority that is similar to the functioning of the chairperson.

The practice of having a Lead Independent Director is prevalent in the USA with a majority of the companies having such a position on their boards. However, the concept of Lead Independent Directors is yet to catch on in India. Only 8% of the respondents say that they had such a position on their board.

## DIRECTOR SELECTION

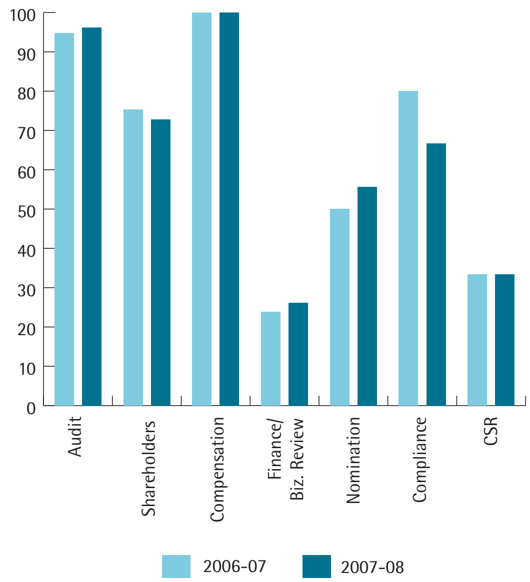
In India, regulations do not define any formal procedure for the selection of a director on a company's board. These regulations only state the requirements, while the procedure and selection itself are left to the purview of a company's board. Generally, selection is carried out using the personal network of the CEO or the board members. Of the companies that responded, 94% stated that they use the personal network of their CEO/Chairperson for the appointment of new directors on their board while 6% used executive search firms.

## INDEPENDENCE OF BOARD COMMITTEES

The survey shows that 60% of board committees were chaired by Independent Directors in 2007-08. Clause 49 requires an Audit Committee to be chaired by an Independent Director. The survey results indicate that only 96% of the companies are compliant. The clause also clearly stipulates the composition, roles and responsibilities of an Audit Committee.

**FIGURE 22: PERCENTAGE OF INDEPENDENT COMMITTEE CHAIRPERSON**

IN PERCENTAGE




An Audit Committee is entrusted with monitoring a company's business and financial operations. As such it needs to be independent in terms of its constituents and operations. The directors that responded to the survey believe that their company's auditors are entirely independent.

The survey has also revealed that over 80% of directors believe that the Chairman of the Audit Committee does have an opportunity to separately discuss concerns with a company's senior management or its auditors. On the whole, directors are satisfied with the functioning of the Audit Committee across companies.

Unlike the Audit Committee, Clause 49 does not make it mandatory for a company to have a Compensation Committee. However, to ensure that some individuals do not receive preferential treatment, the clause prefers to have only Non-Executive Directors in the Compensation Committee, a majority of whom should be independent. The committee could also be chaired by an Independent Director; a condition followed by all companies that participated in the survey and have a Compensation Committee.

The survey further reveals that the periodic rotation of committee members, which could ensure the committee's independent functioning, is not followed in 72% of the cases.

## INCREASE IN COMPANIES SEPARATING THE ROLE OF CEO & CHAIRPERSON

The survey has revealed that there has been an increase of 7.8% in the number of companies that have separated the roles of CEO & Chairperson, in 2007-08 over 2006-07. A similar practice is also followed in the UK as they have fewer Independent Directors on their boards. However, in the USA, most of the companies have a common role for the position of CEO & Chairperson. These companies appoint Lead Independent Directors to balance the presence of a common CEO & Chairperson on their board.

The number of companies having a separate position for CEO & Chairperson was 68.8%, in 2007-08. 60% of the companies surveyed had Non-Executive Directors as Chairpersons.

## AGENDA NO 6

FAIRNESS & CORPORATE SUSTAINABILITY

Even though a **majority** of companies are **actively** pursuing CSR **agendas**, the function **needs** to get greater **representation** at the **board** level

Fairness and sustainability is a responsibility that extends beyond statutory compliance. Organisations are expected to work towards improving the quality of life for employees and their families, the local community and society at large. Today, the pursuit of societal goals related to sustainability of environmental protection, social justice and economics are as important as corporate growth and profitability.

## INDIA INC'S APPROACH TO CSR

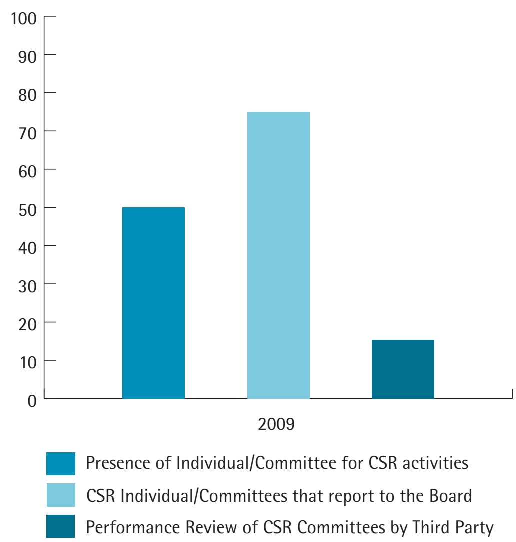
Indian companies have been involved in non-profit activities in effective, but limited ways. They have taken up charitable initiatives like establishing trusts and foundations that build hospitals and schools.

CSR activities are not additional costs but investments that can help enhance overall corporate growth. A majority of the companies surveyed indicated that they are involved in CSR activities through a dedicated CSR individual/team. In most cases, the CSR activities are reported to the board but do not undergo any performance review by a third party.

Around 65% of the companies surveyed as part of the study have a well-defined CSR agenda and have published their activities on their website or in their annual report in 2007-08, a 14% increase over the previous year.

FIGURE 23: CSR ACTIVITIES IN COMPANIES

IN PERCENTAGE




## BOARD INVOLVEMENT: A LONG WAY TO GO...

Even though a majority of companies are actively pursuing CSR agendas, the function needs to get greater representation at the board level. This is visible in the survey results, which clearly indicate that most boards do not have a CSR Committee. During the last two years, the number of companies with CSR committees has remained constant at 3.9%. CSR committees on average comprise 4 directors with equal representations from Executive and Non-Executive Directors.

## ISO'S CSR RATING

ISO, the International Organisation for Standardisation, has decided to launch an International Standard to provide guidelines for social responsibility. Indian companies can achieve this certification to indicate the acceptability of their CSR contributions. The guidance standard will be published as ISO 26000 in 2010 and will be a voluntary exercise.

# ANNEXURE I

## REMUNERATION

Board remuneration at leading Indian companies and multinationals, was dramatically higher than companies that fell in the lower quartile of the survey

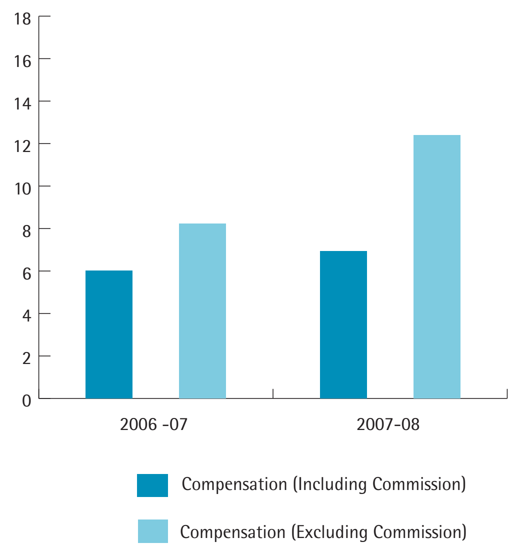
## BOARD REMUNERATION ON THE RISE

Major components of a director's annual compensation include Sitting Fees, Consultancy Fees, Profit Share and Commissions. In the case of Non-Executive Chairpersons, a major part of the compensation is being paid in the form of commissions. The survey indicates that there is wide disparity in Director's remuneration across Indian boards. Board remuneration at leading Indian companies and multinationals, was dramatically higher than companies that fell in the lower quartile of the survey.

Additionally, this year, there is a marked increase in the remuneration being paid to Non-Executive Chairpersons. The total annual compensation for Non-Executive Chairpersons has increased from INR 8.22 lakhs in 2006-07 to INR 12.4 lakhs in 2007-08, a growth of 51%. This was primarily driven by high commissions, on account of excellent corporate results in 2007-08. Approximately 25% of the companies gave out commissions to Non-Executive Chairpersons in 2007-08. The average annual compensation provided to Non-Executive Chairpersons was in the range of INR 20,000 to INR 101 lakhs in 2007-08. The profit share given to Non-Executive Chairpersons by companies, in 2007-08, was increased by 9.5% over 2006-07.

**FIGURE 24: AVERAGE ANNUAL COMPENSATION FOR NON-EXECUTIVE CHAIRPERSONS**

IN INR LAKHS

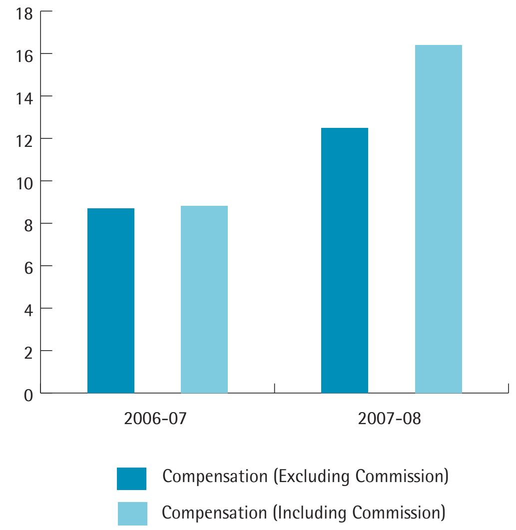



The survey showed that Non-Executive Directors remuneration increased from INR 12.41 lakhs in 2006-07 to INR 14.43 lakhs in 2007-08, a rise of 16.3%. Approximately 30% of the companies provided Non-Executive Directors with a 45.2% increase in commission over the previous year. There was also a 7% increase in profit share given to Non-Executive Directors in 2007-08 over 2006 - 07. The annual compensation provided to Non-Executive Directors was in the range of INR 15000 to INR 160.8 lakhs in 2007-08.

The average annual sitting fees for Non-Executive Chairpersons grew from INR 1.41 lakhs in 2006-07 to INR 1.48 lakhs in 2007-08, an increase of 5%

**FIGURE 25: AVERAGE ANNUAL COMPENSATION FOR NON-EXECUTIVE DIRECTORS**

IN INR LAKHS




## INCREASE IN SITTING FEES

The average annual sitting fees for Non-Executive Chairpersons grew from INR 1.41 lakhs in 2006-07 to INR 1.48 lakhs in 2007-08, an increase of 5%. On the other hand, there was an increase of 19% in the average annual sitting fee for Non-Executive Directors. The average annual sitting fee for Non-Executive Directors was INR 2.89 lakhs in 2007-08 as compared to INR 2.43 lakhs in 2006-07.

**FIGURE 26: AVERAGE ANNUAL SITTING FEES FOR NON-EXECUTIVE DIRECTORS**

IN INR LAKHS

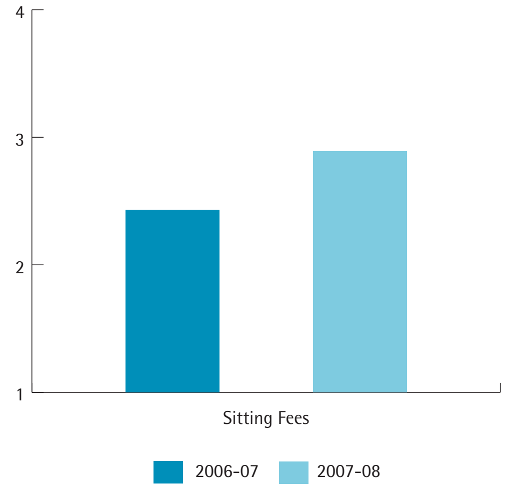
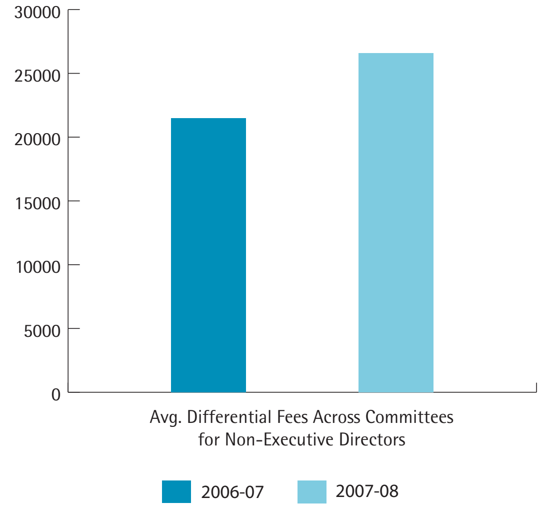



**FIGURE 27: AVERAGE DIFFERENTIAL FEES ACROSS COMMITTEES**

IN INR THOUSANDS




In 2007-08, 30% of the companies that participated in the survey paid additional remuneration to directors for committee membership. This number stood at 27.3% in 2006-07, showing an increase of 9.8%.

## DIFFERENTIAL FEES FOR COMMITTEE MEMBERSHIP

There has been a decrease of 13.3% in the number of companies providing differential fees for committee membership in 2007-08 over 2006-07. This number fell from 19.7% in 2006-07 to 17.1% in 2007-08. The maximum differential fee was paid to members of the Audit Committee.

The average differential fee given to Non-Executive Directors across committees was INR 26,576 in 2007-08, an increase of 23.7% over INR 21,484 in 2006-07.

# ACKNOWLEDGEMENTS

We would like to acknowledge and thank the below mentioned individuals for their participation in this study. Without their consent and personal inputs the study would never have been successful.

Mr. Amal Ganguli
Mr. Anil Harish
Mr. Ashok Jhunjhunwala
Mr. Ashok Sekhar Ganguly
Mr. Atul C. Choksey
Mr. Bharat Doshi
Mr. Chaitan Maniar
Mr. Kantikumar R. Podar
Mr. Nabankar Gupta
Mr. Nadir Godrej
Mr. Nawshir Hoshang Mirza
Mr. Pradeep Bhandari
Mr. Pradeep Mallick
Mr. Pradeep Poddar
Mr. Priya Mohan Sinha
Mr. R. C. Bhargava
Mr. Shailesh V. Haribhakti
Mr. Shobhan Thakore
Mr. Subhash Chandra Bhargava
Mr. Surendra K. Tuteja
Mr. Suresh N. Talwar
Mr. Uday M. Chitale
Mr. Vimal Bhandari
Mr. Vindi Banga

Special thanks to the following companies and to those who wish to remain anonymous, for responding to our endless queries.

ACC Ltd.
Allied Digital Services Ltd.
Areva T&D India Ltd.
Bajaj Finserv Ltd.
Bata India Ltd.
Blue Dart Express Ltd.
Bosch Chassis Systems India Ltd.
Cadila Healthcare Ltd.
DLF Ltd.
Dynamatic Technologies Ltd.
Ess Dee Aluminium Ltd.
Geojit Financial Services Ltd.
GlaxoSmithKline Pharmaceuticals Ltd.
Great Eastern Shipping Company Ltd.
HBL Power Systems Ltd.
HDFC Bank Ltd.
Hindustan Constructions Ltd.
Hotel Leelaventure Ltd.
ICI India Ltd.
Indian Hotels Company Ltd.
ING Vysya Bank Ltd.
Jagran Prakashan Ltd.
Jain Irrigation Systems Ltd.
Jyoti Structures Ltd.
Kirloskar Brothers Ltd.
Lakshmi Machine Works Ltd.
Alfa Laval India Ltd.
Alok Industries Ltd.
Bajaj Auto Ltd.
Bajaj Holdings & Investment Ltd.
Berger Paints India Ltd.
Bombay Dyeing & Manufacturing Company Ltd.
Brigade Enterprises Ltd.
Chambal Fertilizers & Chemicals Ltd.
DRS Warehousing (P) Ltd.
Elecon Engineering Company Ltd.
Firstsource Solutions Ltd.
GHCL Ltd.
GMR Infrastructure Ltd.
GTL Infrastructure Ltd.
HCL Infosystems Ltd.
HDFC Ltd.
Honeywell Automation India Ltd.
Housing Development & Infrastructure Ltd.
India Infoline Ltd.
Info Edge India Ltd.
IVRCL Infrastructures & Projects Ltd
Jai Corp Ltd.
JSW Steel Ltd.
Kansai Nerolac Paints Ltd.
Kotak Mahindra Bank Ltd.
Larsen & Toubro Ltd.
Lupin Ltd.
Maharashtra Seamless Ltd.
Maruti Suzuki India Ltd.
MindTree Ltd.
Oracle Financial Services Software Ltd.
Petronet LNG Ltd.
Satyam Computer Services Ltd.
Shiv Vani Gas & Oil Exploration Services Ltd.
Tanla Solutions Ltd.
Tata Steel Ltd.
Tech Mahindra Ltd.
Thermax Ltd.
Unichem Laboratories Ltd.
Wipro Ltd.
Madhucon Projects Ltd.
Mahindra & Mahindra Financial Services Ltd.
Matrix Laboratories Ltd.
Moser Baer India
Orchid Chemicals & Pharmaceuticals Ltd.
Praj Industries Ltd.
Sharekhan Ltd.
Shopper's Stop Ltd.
Tata Motors Ltd.
TCS Ltd.
Techno Electric & Engineering company Ltd.
Titagarh Wagons Ltd.
United Breweries Ltd.
Yes Bank Ltd.

AZB & PARTNERS
ADVOCATES & SOLICITORS

HUNT PARTNERS

Co-sponsor

sas

With support from

CII
Confederation of Indian Industry

AZB & PARTNERS
ADVOCATES & SOLICITORS

AZB & Partners ('the Firm') is one of the prominent law firms in India with offices in Mumbai, New Delhi and Bangalore. The legal services rendered by the Firm cover the corporate, commercial, regulatory, financial and tax planning aspects of modern businesses. The Firm has a strength of approximately 150 personnel, which includes an integrated team of approximately 85 legal professionals.

The Firm's domestic and international clients range from privately owned to publicly listed companies, including Fortune 500 entities, multinationals, investment banks and private equity funds. In the course of its practice, the Firm and its members have built close working relationships with specialists, agencies and authorities and several international law firms.

The Firm advises and assists its overseas clients in establishing of and operating their business in India. The Firm has extensively advised overseas investors in setting up an Indian presence through representative/liaison or branch offices, joint ventures and subsidiary companies. The Firm has also extensively advised Indian corporates in their overseas acquisitions.

The Firm has been involved in the field of mergers & acquisitions, capital markets, venture capital/private equity funds, mutual funds, banking and finance, securities laws, litigation and arbitration, taxation, power projects, oil and gas, government disinvestments, real estate, infrastructure, information technology, telecommunications, intellectual property, business process outsourcing (including call centres) and media and entertainment.

The Firm has been presented with the Indian National Law Firm of the Year 2006 award at the International Financial Law Review Asian Awards 2006, which are an accepted benchmark for legal practice in Asia.

Confederation of Indian Industry

The Confederation of Indian Industry (CII) works to create and sustain an environment conducive to the growth of industry in India, partnering industry and government alike through advisory and consultative processes.

CII is a non-government, not-for-profit, industry led and industry managed organisation, playing a proactive role in India's development process. Founded over 114 years ago, it is India's premier business association, with a direct membership of over 7500 organisations from the private as well as public sectors, including SMEs and MNCs, and an indirect membership of over 83,000 companies from around 380 national and regional sectoral associations.

CII catalyses change by working closely with government on policy issues, enhancing efficiency, competitiveness and expanding business opportunities for industry through a range of specialised services and global linkages. It also provides a platform for sectoral consensus building and networking. Major emphasis is laid on projecting a positive image of business, assisting industry to identify and execute corporate citizenship programmes. Partnerships with over 120 NGOs across the country carry forward our initiatives in integrated and inclusive development, which include health, education, livelihood, diversity management, skill development and water, to name a few.

Complementing this vision, CII's theme "India@75: The Emerging Agenda", reflects its aspirational role to facilitate the acceleration in India's transformation into an economically vital, technologically innovative, socially and ethically vibrant global leader by year 2022.

With 64 offices in India, 9 overseas in Australia, Austria, China, France, Germany, Japan, Singapore, UK, USA and institutional partnerships with 211 counterpart organisations in 87 countries, CII serves as a reference point for Indian industry and the international business community.

HUNT
PARTNERS

Hunt Partners is a leading boutique executive-search firm in Asia. The firm was founded in 2004 in Hong Kong & Mumbai, and it has since grown to establish 6 direct offices across 4 countries. Prior to coming together to start the firm, the founders had successful careers as corporate general managers, executive search consultants and entrepreneurs. The firm has witnessed rapid growth of people, offices, industry practices and revenue, and is now repeatedly recognised within the top-10 retained search firms.

Hunt Partners is a uniquely structured firm, being the only reputed executive-level search firm operating through an integrated structure of directly-owned & managed offices. As a true partnership, all the firm's Partners have ownership and are committed to fostering an environment that produces results and therefore a solid reputation.

Hunt Partners operates from principal offices in Bangalore, Beijing, Hong Kong, Mumbai, Shanghai and Singapore. The firm also has an exclusive relationship with Paul Lawrence Associates, a Cleveland, OH headquartered executive search firm. Future plans include continued expansion via new offices in South East Asia and West Asia, and a continuously expanding partnership.

SAS is the leader in business analytics software and services and the largest independent vendor in the business intelligence market. Through innovative solutions, SAS helps customers improve performance and deliver value by making better decisions faster. With 45,000 customers–including 96 of the top 100 companies on the FORTUNE Global 500®–SAS develop more profitable relationships with customers and suppliers; to enable better, more accurate and informed decisions; and to drive organizations forward. SAS offers leading data integration, storage, analytics and business intelligence applications within a comprehensive business analytics framework. Since 1976, SAS has been giving customers around the world THE POWER TO KNOW®.

SAS Institute (India) Pvt. Ltd. is a wholly owned subsidiary of SAS Institute Inc. SAS India operations are headquartered in Mumbai with regional offices in Bangalore, New Delhi and Pune with a structure encompassing Sales, Marketing and Professional Services i.e. Consulting, Training & Technical Support. SAS also has an R&D Centre in Pune, which is a key resource arm for the global SAS community and focuses on R&D and Industry Intelligence Solutions Development.

SAS India was rated as the leader in Advanced Analytics market in India as well as the most preferred vendor in Business Intelligence in 2008.

prepared by: www.netscribes.com

AZB & PARTNERS
ADVOCATES & SOLICITORS

**Corporate Address:**
23rd Floor, Express Towers,
Nariman Point,
Mumbai - 400 021,
India
Tel: +91 22 6639 6880
Fax: +91 22 6639 6888

HUNT PARTNERS

**Corporate Address:**
412 B, Trade World,
Kamala Mill,
Mumbai - 400013,
India
Tel: +91 22 4340 1100
Fax: +91 22 4340 1199

Co-sponsor

sas

**Corporate Address:**
Apeejay House, 4th Floor,
3 Dinshaw Wachha Road, Churchgate,
Mumbai - 400 020
India
Tel: 91 22 6749 2222
Fax: 91 22 6749 2299

With support from

CII
Confederation of Indian Industry

**Corporate Address:**
The Mantosh Sondhi Centre,
23 Institutional Area, Lodi Road,
New Delhi - 110 003,
India
Tel: +91 11 24629994-7
Fax: +91 11 24626149