

# A BOARD WITH A CANDID CULTURE

The six Aon Hewitt-Mint Best Managed Boards of 2012 were chosen by a six-member jury based on a detailed evaluation process aimed at identifying organizations that reflect best practices in governance. The winners in no particular order were Dr Reddy's Laboratories Ltd, EID Parry (India) Ltd, Tata Consultancy Services Ltd (TCS), HDFC Bank Ltd, Kotak Mahindra Bank Ltd and Tata Steel Ltd. Here, we showcase HDFC Bank along with an interview with managing director Aditya Puri on how the board and the management work in tandem. In the past few days, we have featured TCS and Tata Steel. For these and a detailed explanation of the methodology and key statistics, go to [www.livemint.com/bestboards](http://www.livemint.com/bestboards) or the Mint app on your device.

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MUMBAI

**H**DFC Bank Ltd was one of the 10 banks that were given a licence after the government amended the Banking Regulation Act in 1993. HDFC Bank started operations in January 1995 and has grown to become the largest private sector bank by market capitalization, beating rivals and fellow 1993 survivors ICICI Bank Ltd and Axis Bank Ltd on that parameter. It has clocked around 30% growth in net profit year after year.

When mortgage lender Housing Development Finance Corp. Ltd (HDFC) received the Reserve Bank of India (RBI) nod to set up a bank in 1994, there were doubts whether a large financial institution could nurture another one that competes for similar customers. However, not only has it survived, but in less than two decades it has grown larger than its parent according to balance sheet size.

The HDFC Bank board consists of six independent directors and five non-independent directors, which includes nominees from HDFC and executives from the bank's management. Paresh Sukhankar, executive director of HDFC Bank and member of the board, said it has always had a significant number of independent members and consciously sought out individuals with diverse backgrounds. HDFC Bank board's non-executive chairman C.M. Vasudev was formerly finance secretary and executive director at the World Bank. Of the other independent members, Ashim Samanta is a businessman, Pandit Palande was director of the school of commerce and management at the Yashwantrao Chavan Maharashtra Open University, and Partho Datta is an associate member of the Institute of Chartered Accountants of India. The board also includes Bobby Parikh, senior partner and leader of the financial services practice at BMR and Associates LLP, and former Maharashtra director general of police A.N. Roy.

"The open and candid environment helps the board to get different views. At HDFC Bank, we also invite seven to eight people from the management team to our board meetings, besides the three people on the board from the

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management side. The board can make a difference and add value by not only reviewing the numbers, but also by reviewing the strategy behind the numbers and also critique, if required. The varied background helps us with different ideas, like our chairman (Vasudev) has formerly been a finance secretary and is a government type. He brings a perspective of how the government or regulator would think. The HDFC professionals on the board bring a financial sector perspective," Sukhankar said.

HDFC vice-chairman and chief executive officer Keki Mistry and joint managing director Renu Karnad are the two HDFC nominees on board of the bank.

The bank's non-executive independent chairman is typically a retired official who has served in the government or the regulator, Sukhankar said.

"This gives us an idea on how the government or the regulator thinks. Before Vasudev, (the post was held by) Jagdish Capoor and S.S. Thakur, who were both with RBI. Also, in our bank, the compliance officer has always reported to the chairman and the audit committee. Ultimately, board members also agree to sit on the boards if they are comfortable with the company culture and that it is free and fair," he said.

Independent board member Parikh said HDFC Bank's "reputation as an efficient organization with a fabulous track record of business performance" led him to join the board.

"My understanding is they are efficient with strong internal procedures, efficient execution, integrity and compliance. The culture and standard of governance is strong within HDFC Bank. The management is always open to discussion and if there is something to be done, the execution is very good. We, as a board, always have enough time for discussion," said Parikh.

ADITYA PURI/HDFC BANK

## The problem is not with rules, the problem is with accountability

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MUMBAI

**A**ditya Puri, managing director of HDFC Bank Ltd, spoke in an interview about the board's role in managing risk and defining the macro environment. Edited excerpts:

**How effective can the board be in a large bank like yours?**

A board can be as effective as the functions of the board and the management. So the main thing is to decide the responsibility of the board and that of the management. The board, as far as I can see, is the supervisory body ensuring that the values of the bank as well as the objectives and principles and policies are followed. However, they can only be effective if they are backed up by the management through appropriate reporting and an open style of management. So I think a board, given the wide variety of experience that they have, could be very valuable in managing risk or defining the macro environment in terms of making sure that the policies and procedures reflect the kind of risk that the institution should take as presented in the business plan. But it would have to be a joint effort between the board and the management.

**Your independent directors do not seem to have much experience in financial sector services.**

I would have to disagree with you. If you see our independent directors, Bobby Parikh is a well-acknowledged expert in taxation, financial advice accounting, etc. If you look at Partho Datta, he is probably one of the most respected people in having been a finance director in multinationals, private family companies, etc. Frankly, I think Keki (Mistry) functions as an independent director even though he may be an HDFC nominee, but I think he functions in the best interest of the bank. If you take C.M. Vasudev, he's been finance secretary...his experience has also been very valuable. Then we have specialized directors for small-scale and agriculture, who bring their expertise.

**Is there something unique about your board which other banks cannot boast of?**

I think it's not so much the uniqueness of the board as it is the fact that the board and the management work in tandem. We have clearly defined responsibilities and we are a very open organization. All presentations are made by the respective business heads. THESE BUSINESS HEADS ARE INVITED TO EVERY MEETING. So it's not something that I brief the board on. They actually are involved in business planning, they are involved in talking and understanding with the executives, they hear it as it is. There is no filter...so I think it's not so much as I am effective or the board is effective, but jointly me, representing the management, and the board together make sure that we are managing the bank.

**The proposed changes in the Companies Bill could affect the status of independent directors with regard to age, tenure, rotation, etc. Will there be an impact on your board's constitution?**

Not much, because RBI (Reserve Bank of India) already has, under the Banking Regulation Act, policies on rotation and appointment and nomination, and we have a reasonably young board. So I don't think there's (going to be) a major impact.

**What do you expect from independent directors?**

If you look at good corporate governance, s/he is supposed to take care of all your constituents not just the majority shareholders. So s/he has to take care of



Effective structures: Puri says only when practices are institutionalized to the last detail do they work.

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the majority shareholders, the minority shareholders, the employees, your borrowers, the suppliers and society. It is very important that an independent director makes sure the company is run in a manner that it is managing the expectations and needs of all constituents and is not dominated by the majority shareholders.

**How do you constitute a framework of best practice structures and processes?**

The point is that all of us know what is right and what is wrong. The question is how to institutionalize it. It's only when practices are institutionalized to the last detail that they work. So the framework has to be policy and procedures that back your fundamental objectives because everybody's objective is we want to take care of all our constituents, we want to be fair and transparent, we want to be ethical—but this is where you go as far as statements are made.

Then you need job designations, you need policies and procedures so that people up and down the line are confident that if there is a deviation they are not opposing their boss, they are saying this is not as per regulation, I can't do it. Or if it is between the board and the management, whose responsibility is it that you will present your plan to me. We will discuss it and jointly agree. Senior management positions will have to come through the nomination committee. Risk will be managed by policies and procedures, but the risk committee will validate the policies and procedures. The audit and compliance committee will meet separately with the auditors. Internal audit, for instance, in our bank does not report to me and I don't want it reporting to me. It reports to the chairman, so there's a split.

**Your compliance officer also does not report to you.**

Yes, absolutely. Because that's not my job. I am a business guy and I want to do business within the right framework. And when I say framework, it includes regulatory and other compliance.

You can have all the procedures, but you can end up following them only in letter, not in spirit... The intent must be

there. If you don't believe in common values, nothing is going to happen. If the majority of the people believe in the procedures, policy and intent, a minority cannot be needed.

**How can the level of corporate governance be raised?**

Firstly, it must be clearly understood that the board has a role. He (the board member) is the representative of the shareholders, he is required to ensure that there is a balance and the management is doing what it's supposed to do. The issue is when you have a board, then I think that wherever you will find a good board, the job and responsibility of the board is very clearly defined. The law provides for the board to be empowered under regulation. So if the board decides that they want to exert the power given to them within the existing framework, there is no reason why you should not have an effective board.

**How do you assess the role of the ministry of corporate affairs and the Securities and Exchange Board of India? Is there any scope for further improvement in corporate governance issues? How effective are the ministry and regulators?**

This is a tough one. In general, I would only say it is better to keep simple rules, fewer rules and if somebody violates it, he should be penalized. The problem is not with the rules in this country, the problem is with the accountability. If there is a rule and you break it, you should be worried. If you are not worried in terms of the fact that you will face a big problem, you will go ahead to break the rule. So I think there is no dearth of good regulators who have provided the framework, but the problem is ensuring that there is accountability and deterrent punishment.

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### VIDEO

Aditya Puri talks about the challenges the board of a bank faces and how best practices are put in place. For complete coverage, go to [www.livemint.com/bestboards](http://www.livemint.com/bestboards)