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Five trends that will shape the governance landscape in the 2020's

Discussions on corporate governance that were met with roll of eyes at the start of the decade, now dominate media headlines. While a lot can – and will change in the next ten years, some trends that that will play out and how the governance landscape might change, are discussed below.

Shift in focus from G to ESG: Over the past few years boards and investors have woken up to why governance matters. They have realized that they ignore governance at their own peril. During the coming decade, they will be expected to change gear and focus on Environment, Social and Governance (ESG) issues. Already over US$ 30 trillion are parked in ESG funds, who are pushing companies to behave as responsible citizens. Banks are moving in parallel. Associations like the US Business Roundtable, which for over two decades spread the gospel that the purpose of the corporation is to maximize returns to shareholders, now talk about businesses commitment to all stakeholders. They emphasize the need for companies to take into account the social order in which they operate. Companies will soon be appointing members to their board who will help them navigate through issues relating to sustainability. Infosys, usually the first to read the writing on the wall, has sustainability targets built into their COO's variable pay. This goes hand in hand with CEO's and boards taking a public stance on issues that matter to their companies – be it political, social or environmental – something they are currently shying away from.

Auditors, rating agencies and big data: Investors rely on audit firms to validate the fairness of a firm's financial statements and credit rating agencies to evaluate a company's ability to service its loans. Both gatekeepers are under pressure. The UK is evaluating breaking up audit firms and having them practice only on audits. If UK goes ahead, this will have huge consequences across the world. The audit firms themselves are changing how they audit, bring in more technology into play. SEBI has spent the last 18 months tightening regulations around rating agencies. Meanwhile access to data and public records is changing at an unprecedented pace. All of this will alter the way audit firms and credit rating agencies operate and how markets consume data but also give Fintech firms the ability to muscle in on their territory. They aren't bogged down by the conflicts or regulatory restrictions that auditors and agencies have. Today the fintech players have the ability to push out data and meaningful analysis in real time, all the while validating data from multiple sources. Expect quarterly results to matter far less than today, even as businesses, regulations, and analysis becomes more data driven. As markets get hard-nosed with data, managements and markets will need to recalibrate how they work.

Increase in the number of professionally managed companies: Indian listed companies are primarily family owned and controlled. Leave aside the financial sector and you can count professionally owned and run companies on your fingertips. This will change in the coming decade for a variety of reasons: the next generation is less interested in running the business and sees itself as an investor; they are too many claimants, making it more efficient to sell. Further large unicorns where founders have already been diluted, will list and private equity, will exit control transactions through listing. Regulations, which are centred on a promoter, will change taking into account the new ownership structure, moving from 'promoter' to 'controlling shareholder.' This combined with an increase in institutionally owned, but professionally managed companies discussed above, will change how regulators approach regulation. For example, there is no reason for regulations to allow a professionally managed company to have the same person as its chairman and managing director, but not a family owned firm.

Increased institutional ownership: After the economy opened-up, the mutual fund industry took-off, private insurance companies entered the fray, and FII's stated investing, taking institutional holding to 24% by 2009. This was also the time when 'promoters' steadily increased their shareholding in companies. Promoter holdings in NSE-listed companies peaked at just over 64% in 2009. Since, then foreign institutional investors have continued to invest, as mutual funds have spread, pension funds are now permitted to invest in equities and there is a small but growing set of AIFs. Institutions now own close to 35% of the market. And while promoter holding is down to 54%, they still call the shots Going ahead, as promoter holding continue to decline, that of institutional investors continuing to increase and the two to equalise. Today investors have stewardship responsibilities thrust upon them by regulators. As these are internalized and integrated into the investment processes, investors will be more empowered and engaged. Expect them to flex their muscles by holding boards accountable.

Boards will come under greater scrutiny: The days of name lending and just showing-up at a board meeting and being rewarded, are long past: board members will be held accountable not just for board failures but for how they and their companies perform. The role of a board and its responsibilities are increasingly better understood. This means that directors have greater clarity about what is expected of them and the board committees they sit on. Example aligning CEO salary with performance, what needs to be disclosed, how are related party transactions to be treated, approach to ESG and much more. IAs a consequence expect boards to be more process driven (- in the positive sense). A consequence is that sitting on six or seven boards will not be feasible. Directors will be expected to spend five to eight days for each board meeting – preparation, discussions the meeting itself. This excludes committee meetings. Conservatively assuming five meetings a year, more than four boards will be a stretch. This number assumes that there are no 'hotspots' that need to be handled, sucking away more time. Regulatory action, which is pushing directors to resign combined with no 'over-boarding' will mean independent directors will have to be adequately rewarded.

An often-repeated statement is that governance is a journey, not a destination. So, it is with what can be expected in the years ahead. These developments discussed are all along a continuum, often overlapping. Expect all these to shape governance practices and impact businesses in the coming decade.

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