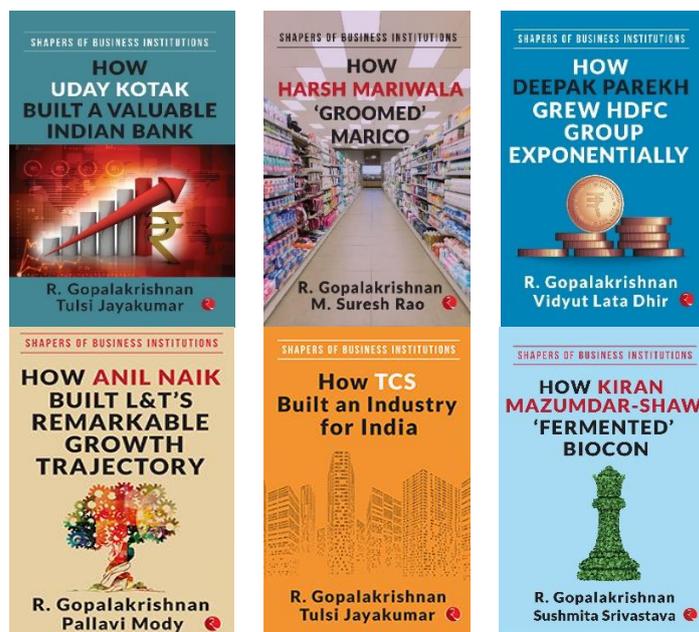


Guest blog+ Book extract: R Gopalakrishnan

What does it take to convert an Indian company into an institution?

The single big reason for India falling behind in economic progress compared to other societies is our inability to develop honest enterprise into lasting institutions. China and India had the same per capita income just thirty years ago in 1990. Today, China has five times India's per capita income. That is dramatic. Honest enterprise is the petrol required to fire a top-class engine. If there is no "clean petrol in the engine," a car cannot develop speed.



From 2019, by collaborating with with five academics from SPJIMR, Mumbai, I completed an important management research project and the writing of six books about six of India's Gen-Liberalization Business Institutions. It is my first experience of an applied research project.

Our research question was: **What does it take to convert an Indian company into an institution?**

The research project was a bit like an archaeological excavation. Through desk research, we dug records to appreciate what makes companies into institutions. After forming a

hypothesis and pilot validation, our team discovered a 3*5 matrix of capabilities that shapers of institutions appear to practice.

This 3*5 matrix is captured in what is called the MBA - mindset, behaviour and actions - of shapers who build institutions in an Indian context? We did not study centenarians like Tata, Bajaj, Godrej and Levers, but sought out only Gen-L institutions where we could interview the living shapers - companies which came into prominence around liberalization period. The six companies that we finally selected to study were HDFC Group, TCS, Kotak Bank, L&T, Biocon, and Marico.

While working on the 3*5 matrix we found 3 essential MBAs and 5 optional MBAs. The 3 essential Mindset-Behaviour-Actions are People MBA, Thinking MBA and Vision MBA. Each of the shapers deployed the MBAs in his or her own way, and we could not establish a formulaic D-I-Y kit or standard way. As a cricketer uses a bat to play different fanciful drives and hooks, shapers also use these capabilities in their own distinctive ways.

We detailed our research methodology and wrote six slim books of 160 pages, one for each company - the series is called 'Shapers of Business Institutions.'

Three-E's OF SOCIETY

Business, or enterprise as I prefer to call it, is at the heart of society. People engaged in enterprise do not appreciate their contribution to society. People, who are unconnected with enterprise, of course, think of business as an instrument of ruthless money-making.

I propose a different view of how society functions.

Right through history, great societies have been built on what I call the three E's, arranged in concentric circles: the innermost circle is enterprise; the middle circle is education, and the outer circle is enlightenment. Let me explain.

ENTERPRISE encompasses the activities of trading, manufacturing and digital. Enterprise also includes the players who are large companies, SMEs and start-ups. It is enterprise that generates jobs in society, income for people, and spending power among consumers. Underdeveloped enterprise means uncertain income, as evidenced by the experience with lockdowns in recent times. Indeed, I repeat my initial assertion that the single reason why India has underperformed its potential is its failure to promote enterprise.

I use the word, **EDUCATION**, in a wide sense. It includes not just formal school and college education but embraces the civilizational advancement of society - arts, humanities, culture, sports, and public health. You need energetic waves of enterprise in the ocean of a society's affairs to lift the boat of education/ civilizational advancement.

If enterprise is bubbling and civilizational advancement is high, then society experiences **ENLIGHTENMENT**, meaning contentment and well-being. Therefore, society must be as

respectful and encouraging of honest enterprise as it is of culture, humanities, and public health, thus leading to enlightenment - as I have been privileged to experience, working for half a century in Unilever and Tata.

It is crucial to understand how enterprise can be nurtured - honest, long-living, sustainable and energetic.

The golden ages of history - Roman civilization, Ming dynasty, Mughal empire, Renaissance period - all were characterized by the exuberance of enterprise, education, and enlightenment.

Without strong enterprise at the foundation, the structure that is built above cannot be healthy education and enlightenment. Strong enterprise develops in a society in which talented shapers of institutions transform "good companies with good leaders". The words INSTITUTION and SHAPER are both important.

What is an INSTITUTION?

Think of the Taj Mahal at Agra and a *kabristan* in Park Circus at Kolkata. Think of Mumbai's VT Station and Begumpet railway station at Hyderabad. Which would you regard as an institution? No prizes for guessing right.

An institution inspires three feelings in everyone. First, a sense of grandeur and awe; second, a sense of being solid and long-lasting; third and last, something that enhances people's lives and happiness. AWE + LONG LASTING + SERVICE are the hallmarks of an institution. We will apply the same to enterprise.

What is a SHAPER?

A shaper is the glue around which institutions are built. Institutions are built, not by shapers, but by people.

The shaper develops a grandiose idea and a detailed plan with the help of unnamed colleagues. A shaper ensures that what is constructed is potentially large, long lasting and of great service to people.

Shah Jahan did not personally build Taj Mahal, though his name is associated with its shaping. So also, with Homi Bhabha and Atomic Energy Establishment.

APPLIED RESEARCH

I joined a team of five academics of Bhavan's SP Jain Institute in Mumbai. I would like to mention their names: Dr Tulsi Jayakumar, Dr Pallavi Mody, Dr Sushmita Srivastava, Dr Vidyut Lata Dhir and M Suresh Rao. This is a rare instance of a seasoned practitioner joining hands with five academics to do applied research in the field of business!!

There is considerable foreign research and several foreign publications about excellent or great enterprises, for example, *Lessons from excellent companies* by Tom Peters, *Good to Great* by Jim Collins, and *Timeless Ventures* by Haruo Funabashi.

We asked the question: where is the research and literature on Indian enterprises and institutions?

We found rich material on Jamsetji Tata, Ardeshir and Pirojsha Godrej, Jamnalal Bajaj and other great pioneers. However, they are what we called Gen-C institution builders, who founded great enterprises at a different time and under a different regime. This set us on a quest to identify more recent companies - what we called Gen L for Generation Liberalization- - with five characteristics:

A company which came into public consciousness around the time of liberalization, say within the last half a century.

The company that is already a successful enterprise, with appurtenances of becoming an institution.

The company has a very high reputation in the public consciousness, though, like all human creations, it may not be perfect.

The company makes a meaningful difference to society, while producing great financial results for its investors, though it may not be the best among its peers. The shaper is *alive* for us to interview.

In short, the institutions for our study should be exemplars operating at the convergence of enterprise, integrity, profit, social orientation, and sustainability. These virtues had to coexist among the companies we would research.

We identified nine companies which met these criteria. I contacted the CEOs to ask if their company would cooperate in our research project. Six companies agreed:

1. Late FC Kohli and S Ramadorai of TCS
2. Deepak Parekh of HDFC Group
3. AM Naik of L&T
4. Uday Kotak of Kotak Mahindra Bank
5. Kiran Mazumdar-Shaw of Biocon
6. Harsh Mariwala of Marico

Together, these six companies accounted for one third of the market value of companies listed on the BSE. They contribute about Rs 2500 crores every year to CSR activities. They are important companies in the enterprise ecosystem.

RESEARCH METHODOLOGY

Our team spent 700 hours on desk research, validation of a preliminary model and detailed interviews with company CEOs, employees, associates, and other stakeholders. The research methodology appears as an appendix in each book.

We started in 2018 and completed the work in 2020, it was quite an exhaustive exercise. Rupa Publications published six slim volumes of 150 pages apiece, one on each institution. We could have published a massive tome of 900 pages. Such a volume would have certainly given the impression of great scholarship! However, we wanted readers to read some of the books, not just buy one big tome, so we made it accessible by publishing six smaller volumes.

The books are about the institutions and not hagiographies. Just as you cannot write about the Taj Mahal without reference to Shah Jahan, the shaper is incidental to the institution in the way we have tried to write the books. That is why you will not see the shapers' pictures on the book covers, though, I rather suspect, that it might have helped the sales of the book! I should share the model we developed and the interesting things we found.

THE MINDSET BEHAVIOR ACTION MODEL

The metaphor of a river is helpful.

Human action emanates from the Gangotri of a person's mindset. The Gangotri of mindset manifests downstream as the river of behaviour. That river then gathers force as a mighty flow, influenced by the actions/karma of the person as it meanders down to the endless ocean. Our team developed this model based on literature search and test validation. We placed M-B-A - *mindset, behaviour, and actions*, as the three vertical columns of a grid we constructed.

We identified eight habits that Indian shapers practiced, often quite unconsciously. These eight habits we listed horizontally. We now had a grid of 24 boxes per shaper, which is 144 boxes for six shapers. We set to populate the 144 boxes through our interviews and analysed them as part of the research.

Our research methodology and the matrix of 3 MBAs by 8 habits appears as an appendix in each of the six books. In the interest of brevity, I will touch upon three habits only in this blog. Since I will not discuss five habits, allow me to just list them. They are:

1. Orbit changing
2. Levers of change
3. Break barriers
4. Cyclical learning
5. Stakeholder orientation

Three habits were crucial, and I will elucidate through anecdotes.

1 Habit: People Orientation

Take the case of TCS. When there were less than ten database experts in Mumbai, TCS pioneered the creation of skilled human resources to seed a new industry for India. During the 1970s, the late F.C. Kohli oversaw development of the first M Tech program in computer science at IIT Kanpur and attracted talent from MIT, UCLA and Harvard. When S. Ramadorai took over in 1996, the Indian IT industry was growing at a scorching 40 % per year and the human resource challenge had acquired a different dimension altogether. Ram (as he is known) and his team initiated *Ignite*- a program to train non-engineering graduates to become business consultants, who could travel the world and speak the one language of TCS. TCS has managed to increase its employee strength 40 times over 23 years, from 10,000 employees in 1996 to 4,70,000 in 2020, with the lowest attrition rate in the industry.

Building an organization through hiring the right people by catching them young with the desired work ethic and values, and allowing them to explore their potential, has been the formula for success for the behemoth of India's financial sector, the HDFC group. As Deepak Parekh, the shaper of HDFC group, said in his interview with our research team, "We always say that we hire ordinary people and make them do extraordinary things".

Marico's shaper, Harsh Mariwala saw early on that an organization could command human qualities like creativity, passion, and initiative. What is necessary is to ensure that a work culture where people are encouraged to take risks without punishing failure. It also meant empowerment of a certain nature which had not been imagined hitherto. Thus, Marico entrusts employees with keeping their own attendance and leave records, with the HR department neither monitoring employees' attendance nor maintaining leave records; reimbursements for expenses incurred at work are also self-administered, thus doing away with routine bureaucracy.

Such empowerment and encouragement for an entrepreneurial orientation is characteristic of other business institutions like Kotak Mahindra Bank (KMB) as well. However, to let the organization be built by people, the shaper is one who revels in a team comprising of achievers, who can question, challenge and express dissent. As Uday says, "If your team members are better than you, that's what you want."

Anil Naik of L&T is equally open to feedback from his employees, and has been known to ask them a simple, direct question: "What do you think we need to transform this company?"

2 Habit: Critical Thinking

It is about developing unusual scenarios for problem solving by thinking up of not-so-obvious options; most would gravitate to the obvious options. Leaders think critically by reflecting on the context of an issue rather than only analysing the issue. Consider this example of how Biocon pivoted its technology.

After ten years of Biocon's existence, Kiran Mazumdar-Shaw reflected about growth options. The company had begun with a conventional technology (called solid state), which suited local conditions of water and power availability. An alternative was sophisticated (called deep

tank). Should the company be a big fish in a small pond (solid state) or be a small fish in a big pond (deep tank)?

Deep tank would require new skills, but could facilitate entry into the much bigger biopharma market. Kiran took a dramatic decision in 2006: to sell the company's foundational enzyme business to a top-class Danish company, *Novozyme* - which still operates the technology perfected by Biocon. Biocon embarked on the risky journey of biopharmaceuticals, a bit like a bird moulting its skin and then flying into the skies with a new skin.

Kiran wanted to fight cancer through breakthrough drugs based on monoclonal antibodies (MAB), but the technology was closely guarded by the Americans. An opportunity arose after she met a scientist from the Department of Molecular Biology of Cuba at a conference. Kiran visited the Cuban laboratory. The Cubans expressed great interest to enhance the value of their MAB technology. Biocon signed an agreement and, over the next decade, produced many novel drugs. When Biocon embarked on the capital-intensive biopharma business, Kiran chose the model of business partnerships, whereby Biocon tapered the risks and enhanced the rewards. The focus on 'value' over 'volume' was another conscious choice that Biocon made.

In 1978, Tata Sons formed a JV with Burroughs, USA. F C Kohli, the then CEO had two choices: either TCS could merge with MNC company Burroughs or it could develop as an independent start-up. FC Kohli decided that TCS should continue as a separate entity. In doing so, TCS had to learn to operate in a competitive environment, with freedom and creativity, and to work in foreign markets.

At HDFC group, Deepak Parekh always had his ear to the ground. Around 2005, HDFC decided to issue foreign currency convertible bonds (FCCB) in Asia. It was a complex instrument. Pricing was crucial, based as it was on multiple variables like interest rate and foreign currency rates. The issue was global, and pricing was influenced by judgment of US dollar and Japanese yen rates, the stock market sentiment, and the conversion price five years hence. Using critical thinking, whereas others' FCCBs had not been successful, HDFC became extremely successful.

Kotak Mahindra Bank successfully weathered the Asian Financial crisis in 1997. Uday Kotak questioned every underlying assumption - a key trait of critical thinkers. Uday Kotak admits that he wanted to scale up and expand, but was equally a cautious person about risk, reflecting qualities of a critical thinker. He shrank his capital lending base from Rs 1800 crores to Rs 800 Crores. Return of capital was more important than *return on capital*.

Project Lakshya was started by Mr. AM Naik at L&T with a perspective plan for ten years. The top 300 people in the company had to decide 'where does the company want to be in the future?' Project Lakshya focused the energies of management on mega projects with a timeframe of 5 years. The vision for five years under Project Lakshya was broken into yearly targets and further to quarterly targets as an important exercise.

Critical thinking demands excellent listening skills and encouraging arguments. Inferences

Exhibit 1: Shaper mindset-behaviour-action grid

MIND SET	Behavior	Action
1. PEOPLE RELATIONS <i>RESPECTFUL TO OTHERS</i>	Sensitive and empathetic to others	Engages with people and nurtures them
2. SHORT VS LONG TERM <i>BOTH EQUALLY IMPORTANT</i>	Encourages to deal with the immediate, while silently considering the long term	Acts on the immediate decisively to get results creating the impression of small wins, so as to look forward to and work towards a big 'victory' in the future.
3. CRITICAL THINKING <i>GEOLOGIST AND ASTRONOMER</i>	Encourages discussion and debate with an open-mindedness	Acts with precision and demands accountability
4. ORBIT CHANGING <i>CONSTANT ORBIT-SEEKING</i>	Tosses around and debates the risks and rewards of orbit change, almost appearing indecisive	Demonstrates single-minded commitment once a decision is made
5. BREAK BARRIERS <i>STEER THROUGH OBSTACLES</i>	Identifies the obstacles and seek the best way to deal – break it, go around it, navigate it	Once the path is clear, pursues with an Arjuna like determination
6. LEVERS OF CHANGE <i>ASPIRATIONAL MINDSET</i>	Debates and seek ways out to unlock organization from negative hooks while attaching positive hooks	Presses for action and change in a disciplined manner
7. CYCLICAL LEARNING <i>ACT-OBSERVE-REVIEW</i>	Insists on a systems approach of cyclical learning	Ensures organization-wide deployment of an accepted system
8. ORIENT TO STAKEHOLDER <i>INSTITUTION= STAKEHOLDER</i>	Constantly understanding customer and community perspective	Always acts by keeping in mind multiple stakeholder interests

Source: Shapers Series

are drawn with inductive and deductive thinking with a long term perspective. It is about connecting the dots and constantly setting the contours of ones thought processes.

3 Habit: Short Versus Long Term

For many leaders, managing the short and long term simultaneously is a great challenge. Both are necessary and important for institution building, but how does a leader do both?

Marico's value statement affirms 'profit optimization'. This signals that there will be no trade-off between quality and costs for short term benefits. For Harsh Mariwala, this commitment meant that the gap between revenues and profits was acceptable so long as the growth line was steeper than the loss line. Marico avoided the common practice of month end loading of stocks into its channel. Harsh ensured this by installing an integrated MIS that linked supply to channel sales. This commitment to the trade has had beneficial impact on Marico's long-term profitability.

At Kotak Mahindra Bank, Uday Kotak's policy was to take granular steps--"it will be slower, but success will be more solid and sustainable". All decisions were based on an underlying criteria of value creation. Kotak would often say, "if something did not create economic value, Kotak Mahindra Bank would not do it just to boost the next quarter earnings".

Anil Naik too was cast in the same mold at Larsen and Toubro. Even as the manufacturing facility at Hazira was taking shape, Naik looking ahead, got working simultaneously on getting skilled workers by putting in place a master plan for sourcing and training workers: the hardscape--creating capacity by way of a massive fabrication yard and installing machinery and the softscape—capability building, and training manpower were taken up simultaneously.

Naik's grasp of the fundamental truth of short-term actions building up to generate long term value is revealed in his unremitting commitment for ensuring that long term share price reflected the true value of L & T. The true value of a share is determined by growth of business along with profitability and return of capital employed. Naik launched Project Blue Chip, a program to successfully transform L & T into a blue-chip company.

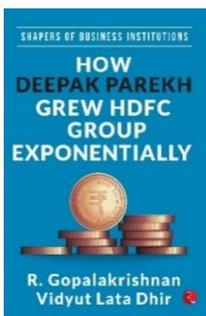
Conclusion

It is our earnest hope that we have laid the first few bricks to construct a practical citadel of knowledge about how Indian enterprise can provide India with many more business institutions, thus creating a stronger foundation for the advancement of our society.

Book extract

INSTITUTIONALIZING TRUST

An institution is a mirror image of the values personified by its leadership. Core values within an institution are reflected in the decisions made by its leaders at multiple levels or even in



the small acts of its people. These incidents are projected as the stories that guide and show the way ahead, and also help to build organizational culture. There are many such stories in HDFC that show how inclusiveness and respect for each employee and the customer is paramount to the organizational way of functioning.

For instance, Deepak has always been known to engage directly with the customers and there are stories galore about his personal involvement in

making customers or even employees feel valued. By personal example, he led from the front and built a culture of inclusiveness where nobody is too big or too small to be included in a discussion. He inspires loyalty, as can be seen in the HDFC Group of companies where people have worked for decades, simply because they feel valued.

Value brings trust, another key building block for organizational excellence that comes when organizations put people first. It took HDFC time and hard work to build trust into an 'Emotional Bank Account,' as it built on its unprecedented connect with those who perceived the brand as one with a high standard of integrity. As Chaudhary says, 'Deepak inspired trust with his humility and openness and what worked for the HDFC Group was its value system[, which] could not be questioned.'

By introducing processes that are efficient and transparent, organizational leaders at HDFC worked hard to consciously create a brand that everyone in India recognizes today for its trust and transparency and for being an efficient organization with a track record of business performance. Conrad validates the genesis of strong governance, 'Deepak worked hard to put clear and transparent governance processes into practice. We always had a retired bureaucrat and even a retired RBI governor on our board. He wanted to create a board that was truly diverse and independent.'

The culture and standard of governance is strong within the HDFC Group. 'My understanding is that the Board is efficient with strong internal procedures, efficient execution, integrity and compliance. The management is always open to discussion and if there is something to be done, the execution is good. We, as a board, always manage enough time for discussion,' said Deepak.^[1]

To promote transparency, HDFC as a group has long championed the practice of the Open System as a communication model. Under this model, regular feedback is given about the external environment, which is analysed, assessed and evaluated so that internal systems may be adjusted to achieve the goals.

Commitment is the bond employees experience with their organization^[2] when they feel valued. They also imbibe the goals of the organization. When employees feel that they fit in, they become the ambassadors of the organization and great assets. They 'want to' to be part of the organization,^[3] which is the quintessence of not just how much the individual has contributed to the organization, but also the organization's commitment to the growth and lived experiences of every employee.

^[1]Rebello, J. (2012, December 11). HDFC Bank: A board with a candid culture. Retrieved from <https://www.livemint.com/Industry/DytOxtrVjCP9tgAeiW1wL/HDFC-Bank-A-board-with-a-candid-culture.html>

^[2]Meyer, J.P., & Allen, N.J. (1991). A Three-Component Conceptualization of Organizational Commitment. *Human resource management review*, 1(1), 61-89.

^[3]Meyer, J. P., & Allen, N. J. (1984). Testing the "side-bet theory" of organizational commitment: Some methodological considerations. *Journal of applied psychology*, 69(3), 372.

Employees at HDFC feel a deep sense of connection with the purpose of the organization. They are ready to make a long-term commitment at HDFC and feel a sense of pride at its achievements. They do not wish to leave HDFC because that would mean leaving a sense of purpose.

Sculpting the HDFC Way

When we see the organization as an organism enjoying a symbiotic relationship with its customers and employees, we can see that HDFC built on its values to be shaped into an institution, sturdy and strong. In trying to understand how it was able to weatherproof its business in spite of all the chaos in the outside world, particularly in finance and banking, certain key elements stand out. In addition to its bedrock of values, HDFC's focus on its people, customers and processes is the aggregator here.

People: Ironically, HDFC's 3,095 employees as of March 2020, are part of that very middle class and hold the same values. Even today, HDFC refrains from hiring people from Ivy leagues. Instead, it looks for down-to-earth candidates who are the right value fit. Skills can be incorporated, but attitude is something that defines a person.

Customers: The group has thrived by listening to the changing psyche and demographics of the Indian middle-class landscape. The HDFC way is being agile, thinking on your feet and aiming high, with your roots firmly planted on the ground. It is also about looking at the way consumers are and will think in the future and proactively working on the trends that would shape the Indian economy.

Products: HDFC offered its products to the middle class and did not target high-end customers only. Trust was mutual. Its customers knew that HDFC had their best interests in mind. HDFC pitched the products taking into account not just the customers' repayment potential, but the repayment intention of the family. The institution banked on the pride and integrity of the Indian middle class, the very values Deepak and Hasmukh *bhai* held close to their hearts.

Growth decisions: The HDFC way is about how an organization can shape the future of the Indian economy. Its joint ventures with those overseas have been able to access expertise for India. The group believes there is enormous potential for untapped growth within India itself as the financial sector penetration in India is still low. Outside of HDFC, Deepak has been involved in policymaking and chairs committees that benefit the Indian populace.

Processes: Achieving success is difficult for any new company, but what becomes harder is continuing to be successful once the shaper retires. Deepak ensured that he had created an effective second-in-line and third-in-line as in the case of Satwalekar, who was the managing director before Mistry and Karnad, and who subsequently moved to head HDFC Standard Life. In this manner, Deepak created several leaders. What helped was that the processes and systems put in place over the years have weathered many storms and situations and survived through external disturbances and financial crises.

Many great shapers went on to make HDFC Group what it is today. Mahindra's prediction that Deepak and his top management team will turn HDFC into a household name has been

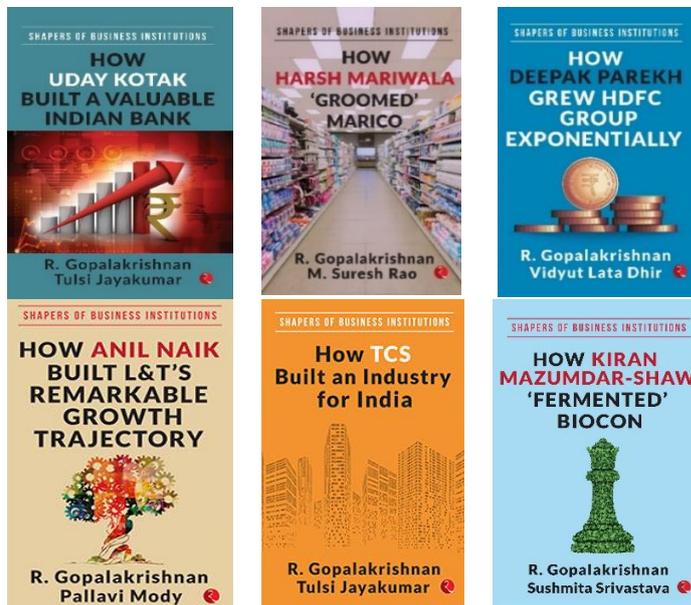
prophetic. However, these stalwarts have also incubated some of the best home-grown institutions in India that address all the financial needs of an individual or commercial entity. What is interesting is that while the stalwarts moved on, their contribution and work has lived on. Institutions are built when the thinking and values of the founder get translated into systems and processes and get infused in the 'knowing, doing and being' of each employee of the organization and even beyond it.

Education, for instance, is close to Deepak's heart. He believes that the education system needs to incorporate storytelling and gamification.^[4] No wonder then, that he was instrumental in setting up the HDFC School, with its motto 'Educate, Excel and Empower'. These schools in Gurugram, Pune and Bengaluru seek to set an example of best practices in education and deliver a future with endless possibilities. 'A school is the first step in a student's life cycle and there is still a need for the government and the private sector to invest aggressively in this area,' Deepak said at the inauguration of the first HDFC-promoted school in Gurugram. He had picked up where his uncle and role model left off.



Ramabadrhan *Gopalakrishnan* is an Indian businessman and author. He has worked with Hindustan Unilever Limited and as an executive director of Tata Sons Ltd and serves on several boards.

Contact: rgopal@tata.com



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^[4]STEPapp to revolutionize K-12 education in India with gamification of learning. (2019, December 03). Retrieved June 09, 2020, from <https://www.adgully.com/stepapp-to-revolutionize-k-12-education-in-india-with-gamification-of-learning-89767.html>

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