A FACT PERSONNEL PERSPECTIVE ON GOVERNANCE

The cost *of capital.*

Manufacturing & engineering boards govern two questions at once — whether the next expansion beats its cost of capital, and whether the plant is safe. Few directors can read both.

Sentinel.
— BY FACT PERSONNEL —

Leadership Search & Advisory · Mumbai

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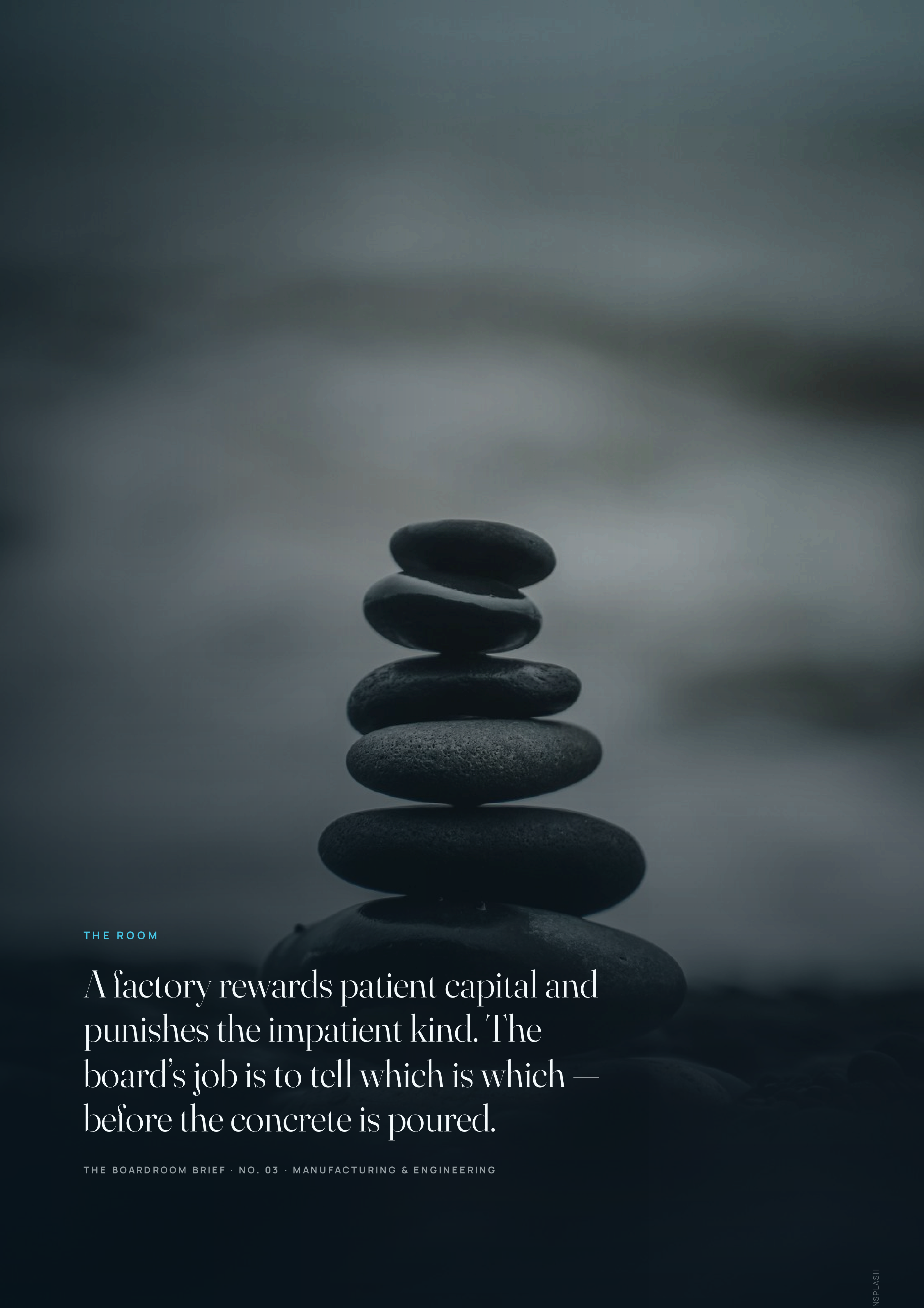


THE ROOM

A factory rewards patient capital and punishes the impatient kind. The board's job is to tell which is which — before the concrete is poured.

NSPLASH

ABOUT THIS ISSUE

A sector reading of the independent *seat.*

The Boardroom Brief began with a single argument: that a great independent director is not a compliance artefact but a deliberately chosen, well-briefed, genuinely free mind — selected for a specific gap. Issue No. 01 made that case in general; No. 02 took it into the property boardroom. This issue takes it onto the factory floor.

Manufacturing and engineering is the sector where two very different risks sit on one agenda. The first is *capital*: a plant is built years before it earns, and a board that cannot tell a value-creating expansion from a value-destroying one will wave both through with the same nod. The second is *safety*: a single process failure can end lives and the company's licence to operate at once. The conventional board reads the growth story fluently and the other two barely at all.

We set out, in order: whether the expansion beats its cost of capital, what the safety agenda actually is, the floor the new labour code has built beneath it, the operator-minded director the board is missing, and the question — asked two ways — that earns the seat.

> *Capital allocation is a clean-room discipline. The same floor that grows a company can quietly shrink it.*

WRITTEN FOR

Chairpersons and promoters of listed and large unlisted manufacturers and engineering groups; independent and audit-committee directors; and the CFOs and plant heads who brief them.

IN THIS ISSUE

Why capacity growth is not value; the safety risk a generalist board cannot see; the new OSH Code floor; the operator the board is missing; and the question that tests for both capital and safety judgement.

THE SERIES

Issue No. 04 takes chemicals & process, and the worst that can happen. Each room in turn.

EXECUTIVE SUMMARY

A board can approve every expansion and still destroy value — quietly, one sub-par project at a *time.*

Manufacturing is the discipline of turning capital into capacity, and capacity into cash, across a cycle the company does not set. That makes capital allocation the board's first duty: every rupee of capex is a bet placed years before the return arrives, and a plant that grows revenue while earning below the cost of capital is shrinking the company even as it expands.

The second duty is harder to delegate. A factory carries the risk of catastrophic, life-ending failure, and in November 2025 the law that governs it changed: the Factories Act, 1948 was repealed and the Occupational Safety, Health and Working Conditions Code, 2020 came into force, with its Central Rules notified in May 2026. The duties moved, but the principle did not — the occupier, and behind the occupier the board, carries the safety of the plant.

The director this board most needs is not a bigger name. It is an operator's mind — someone who has run plants, allocated capital against a hurdle rate, and lived with a safety committee — who can read a capex proposal and a safety report with equal fluency, and challenge both.

Our argument, in one line: in manufacturing, governance is the discipline of asking whether the next rupee of capital beats its cost, and whether the plant that spends it will send everyone home safe.

None of this is a compliance exercise. The OSH Code, the environmental consents and the Companies Act supply the floor; a manufacturer can satisfy every one of them while its board remains unable to read the capital case or the safety case behind the numbers. This issue is about closing that distance.

It is written for the people who choose directors: the chairperson weighing a familiar name against an operator's judgement, and the promoter deciding whether the board is there to applaud the ribbon-cutting or to ask whether the project should have been built at all.

WHAT IS IN THIS ISSUE

HOW TO READ IT

Sections One to Three move from the capital question, to the operator who can answer it, to the test that proves it. Read the exhibits as the argument in miniature.

> *"The board that approves the capex and never reads the safety report is exposed twice over — on the day the return disappoints, and on the day the plant does not."*

01

Capital *and the floor*

SECTION ONE

Every sector has a dominant risk. In manufacturing there are two, and they pull in opposite directions: the ambition that builds capacity, and the discipline that asks whether the capacity will ever pay for itself.

This section sets out why growth is not value, the safety risk that sits beside the capital one, and the floor the new Occupational Safety, Health and Working Conditions Code has built beneath them both.

1.1 — CAPACITY IS EASY TO ADD. RETURNS ARE EASY TO *LOSE.*

Growth is not the same as *value.*

The most seductive proposal a manufacturing board will ever see is the one for more capacity. It comes with a groundbreaking, a ribbon, a number for incremental revenue, and the quiet implication that bigger is better. What it rarely comes with, stated as plainly, is the only number that decides whether it was worth building: the return on the capital employed, measured against the cost of that capital.

A plant can add revenue and destroy value at the same time. If it earns a return below the company's cost of capital — the blended cost of the debt and equity that funded it — then every rupee it turns over is worth less than the rupee it consumed. The company grows on every measure the proposal celebrated, and shrinks on the only one that compounds.

The columns opposite show five expansions against a single hurdle. Two cleared it comfortably; three did not — and the lowest barely earned a return at all. To the eye that reads revenue and tonnage, all five are successes. To the eye that reads return on capital, three of them quietly made the company poorer — and the board that approved them never saw it, because no one in the room was reading the right axis.

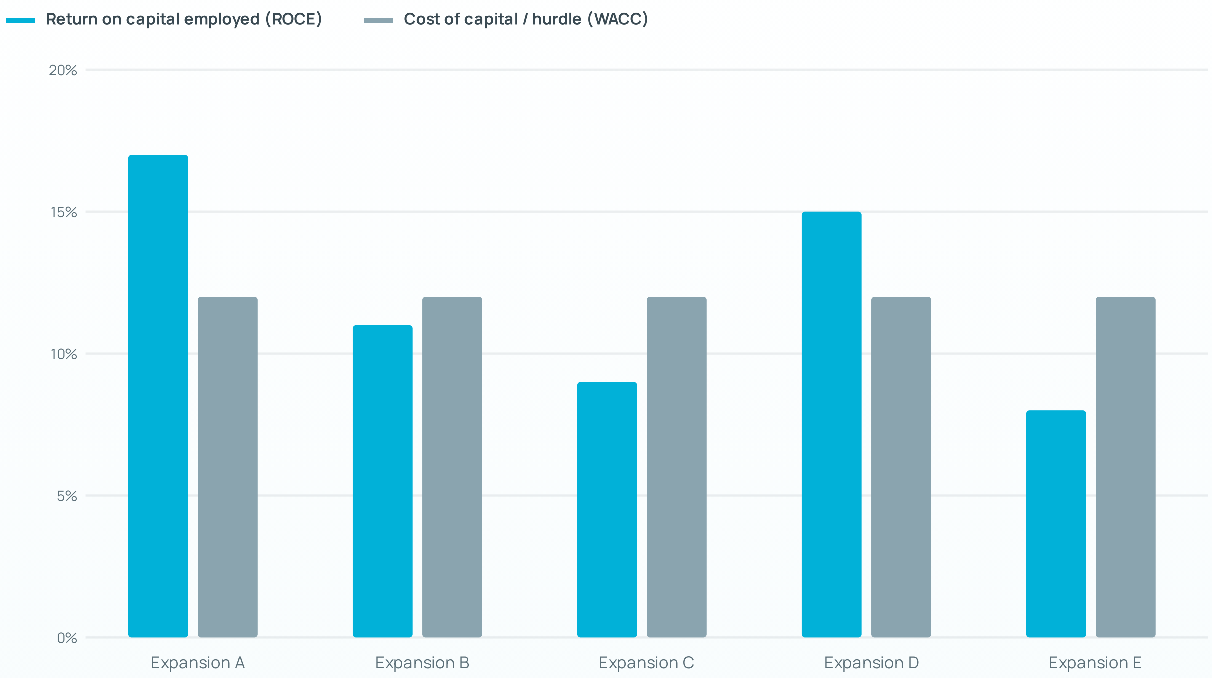
This is not an argument against expansion. It is an argument for a board that can tell the difference, and will say so before the concrete is poured rather than after the depreciation has started. That judgement is ordinary among operators who have allocated capital for a living. It is rare on a board assembled for reassurance.

> *A factory can grow its revenue, its tonnage and its headcount — and shrink the company that owns it. The board's job is to know which.*

EXHIBIT 01

FACT PERSONNEL

Five expansions, one hurdle: which created value?



Three of these five grew the company; only three created value. *Expansions B, C and E earned a return below the cost of capital — they added revenue and assets while quietly shrinking the company's worth. A board that reads only the growth story approves all five with the same nod. Illustrative; Fact Personnel framework.*

1.2 — SAFETY IS A BOARD FAILURE, NOT A FOREMAN'S *MISTAKE.*

The other risk a manufacturing board governs arrives every *shift.*

A factory carries a category of risk no boardroom slide quite captures: the risk that something goes wrong on the floor and someone does not go home. When it happens, the instinct is to treat it as an operational matter — a foreman's lapse, a maintenance miss. The law, and good governance, treat it as the board's.

The matrix opposite plots the manufacturing board's agenda the way it should be weighed — by likelihood and by severity. The cluster in the top band is telling. A process or plant-safety failure is the most severe risk on the board's table: it can take lives, halt production, and cost the company its consent to operate. A sustained stretch of capital earning below its hurdle is less dramatic but more likely, and it bleeds the company quietly, year after year.

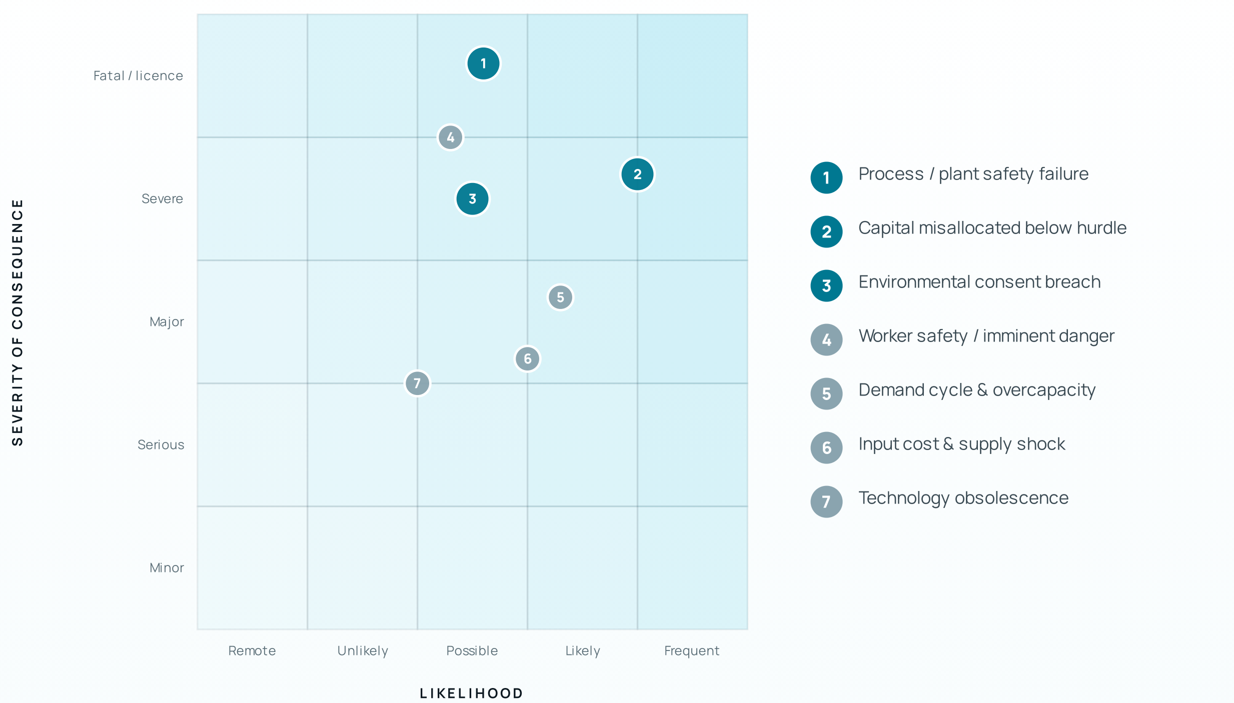
What unites them is that both are governed on trust by the conventional board. The safety report is received, the assurance noted, the agenda moved on; the capex is approved against a model management built and management defends. Neither is interrogated, because interrogating either requires a kind of expertise the comfortable appointment does not bring into the room.

A board cannot run a plant, and should not try. But it is accountable for insisting that the questions are asked — that the safety case is real and the capital case honest — and for having at least one member equipped to know whether the answers it receives are sound.

EXHIBIT 02

FACT PERSONNEL

The manufacturing risk map: likelihood against severity



The two gravest risks share the top band. *A safety failure can be fatal and end the licence to operate; a sustained run of below-hurdle capex is more likely and erodes the company from within. Both are questions a board of generalists tends to take on management's assurance. Positioning reflects Fact Personnel's framework, not a statistical survey.*

THE LESSON A safety failure is governed in the boardroom long before it happens on the floor. The board that cannot read the safety case has delegated its gravest duty to the people it is meant to oversee.

1.3 — A NEW FLOOR, AND WHERE IT STOPS

The law moved the floor. It did not build the *board.*

For most of independent India, plant safety was governed by the Factories Act, 1948 — a statute that outlived the industrial economy it was written for. That changed in November 2025, when the Occupational Safety, Health and Working Conditions Code, 2020 came into force and the old Act stood repealed, followed by the Central Rules that made it operative in May 2026.

The reform consolidated thirteen labour laws and modernised the architecture of plant safety. It places a primary statutory duty on the occupier for the health and safety of every worker;[1] it gives a worker the right to refuse work in conditions of imminent danger;[2] and it requires safety committees and qualified safety officers above defined thresholds.[3] The factory thresholds themselves were raised, narrowing the Code's reach at the smaller end.

It is a serious framework, and a better one than it replaced. But — as the timeline opposite makes plain — a code that governs safety cannot tell a board whether the expansion it approved will earn its cost of capital, nor whether the safety culture beneath the mandated committees is genuine or merely documented. Those are not compliance questions. They are the board's.

The distinction matters because compliance and effectiveness are easy to confuse. A manufacturer can hold every consent, file every return, and constitute every committee the Code demands — and still be run by a board that cannot read a capital case or test a safety culture. The law gets a company to the floor; the board has to build everything above it, and that depends on having someone in the room who has done both.

EXHIBIT 03

FACT PERSONNEL

The floor moved in 2025 — and where it stops

1948 — Factories Act enacted
The post-Independence statute that governed plant safety for 77 years.

2020 — OSH Code passed
Parliament consolidates 13 labour laws, including factory safety, into one Code.

Nov 2025 — Code in force
The Factories Act, 1948 stands repealed; the OSH Code, 2020 takes effect.

May 2026 — Central Rules notified
The operative rules give the Code teeth across states and sectors.

§ 6 — The occupier's duty
Primary statutory duty for the health and safety of every worker.

§§ 13, 22 — Refusal & committees
Worker right to refuse imminent-danger work; mandatory safety committees.

WHAT IT LEAVES TO THE BOARD

The capital case. No safety code asks whether an approved expansion will earn its cost of capital.

The safety culture. The Code mandates committees; it cannot legislate whether the board reads what they find.

The hard trade-off. When safety spend and capital returns conflict, the statute is silent. The board is not.

The duties were modernised; the board's job was not. *The OSH Code raised and clarified the occupier's duty, but it cannot tell a board whether its capital is well spent or whether its safety culture is real beneath the paperwork. Sources: OSH Code, 2020 (in force 21 Nov 2025; Central Rules 8 May 2026), ss. 6, 13, 22.*

THE LESSON The OSH Code carries a manufacturer to 'compliant' and stops there. The board's job begins where the code ends — at the capital case, and the culture the paperwork cannot certify.

02

The operator *the board needs*

SECTION TWO

The conventional manufacturing board is built of trusted names — a retired banker, a senior chartered accountant, a respected industrialist peer. Each is valuable. Together they tend to read the growth story and little else.

What is missing is someone who has run a plant, allocated capital against a hurdle, and lived with a safety committee. This section measures that gap, and shows where the capability actually lives.

2.1 — THE CAPABILITY THE BOARD DOESN'T HAVE

A board that can read the report, but not the *plant.*

The default manufacturing board assembles the same respected archetypes, and inherits their shared field of vision: strong on finance, on relationships, on the growth narrative — and thin on the two things this sector turns on. Few of its members have ever signed off capital against a hurdle rate they owned, walked a shop floor and known what they were looking at, or sat on the wrong side of a safety incident and learned what a board should have asked beforehand.

The radar opposite plots the need against the supply across the six capabilities that matter most. The outer polygon is what an effective manufacturing board requires on each axis; the inner one is what a conventional shortlist typically brings. The space between them is the gap — and it yawns widest on plant and process safety, the axis where being wrong is measured in lives, not basis points.

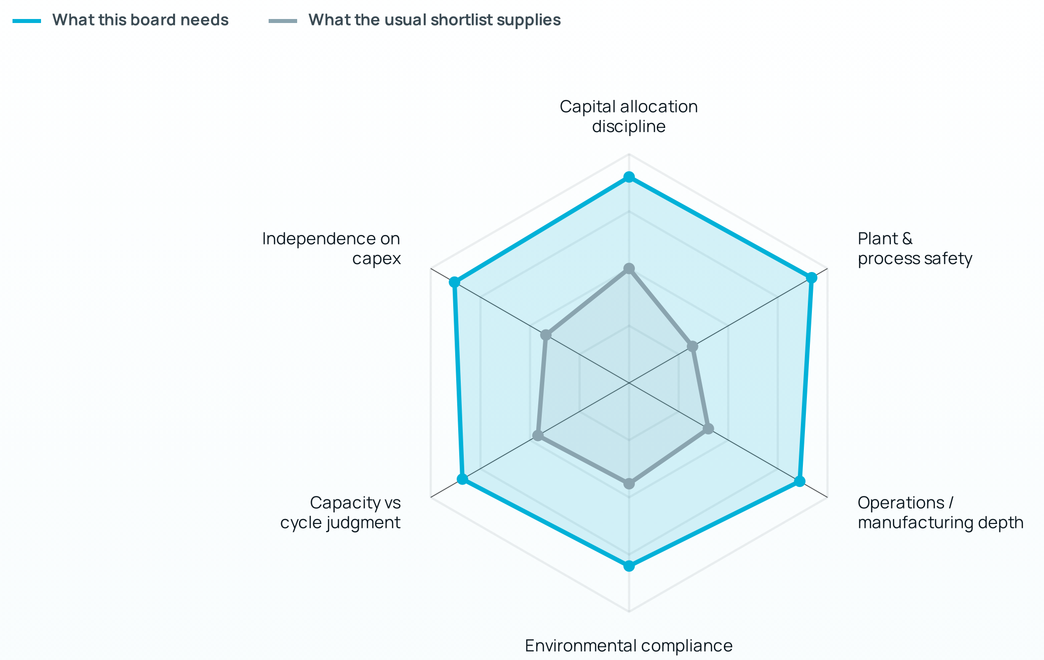
That should unsettle a chairperson. The capability the board is thinnest on is the one attached to its gravest liability. A director who cannot read a safety case will accept the assurance that the plant is safe, because they have no independent basis to do otherwise — and an assurance accepted is not an assurance tested.

None of these capabilities is rare in the market. They are simply not the ones a manufacturing board's usual shortlist is built to screen for — which is precisely why they have to be searched for deliberately, against the brief, rather than recognised from a familiar name.

> *The capability the board is thinnest on is the one wired to its gravest liability. That is not a coincidence; it is a warning.*

EXHIBIT 04 FACT PERSONNEL

The capability gap, across six dimensions



The widest gap is the one that can be fatal. *On plant and process safety, the conventional shortlist is at its thinnest — precisely the axis where a board most needs an operator's instinct rather than a financier's. Capital-allocation judgement runs a close second. A qualitative reading of our searches, not a statistical survey.*

2.2 — SEARCH WHERE THE CAPABILITY LIVES

Not a bigger name — a different *mind.*

Once the gap is named, the search changes shape. It stops looking for the most reassuring industrial name and starts looking for the person who can read this business: an operations leader who has run plants and allocated capital, an environment-health-and-safety head who has lived the safety case from the inside, or an industrial-sector CFO who has defended a hurdle rate to a sceptical board.

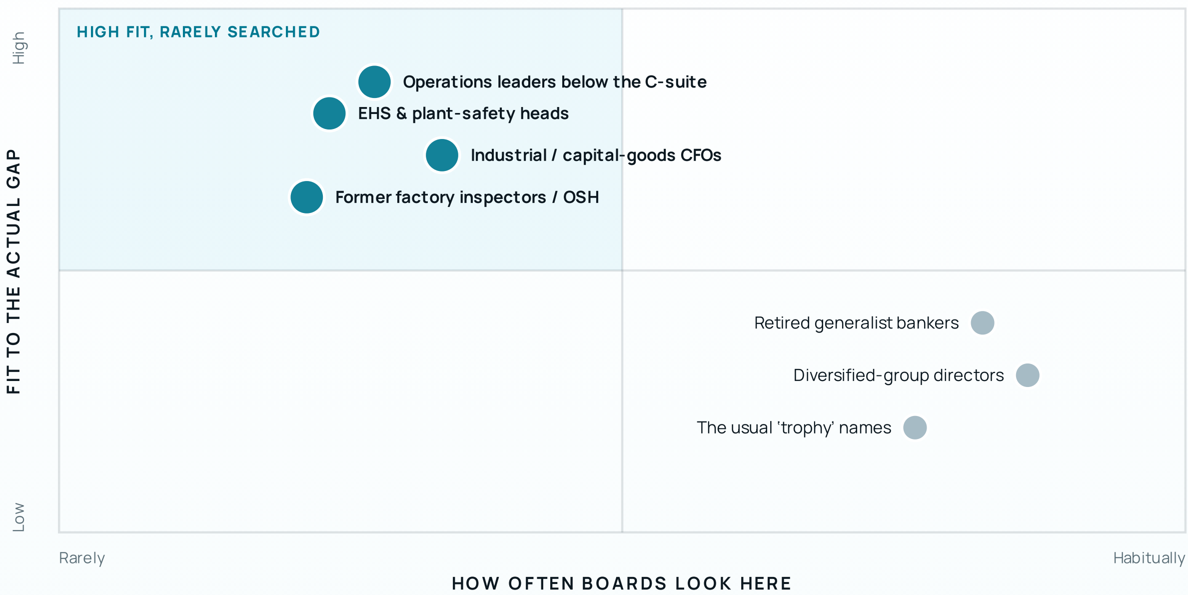
The quadrant opposite is the uncomfortable picture most boards would draw of themselves if they were honest. The horizontal axis is how often boards actually look in a given place; the vertical axis is how well that place fits the gap this sector exposes. The names boards reach for by reflex cluster in the bottom-right — frequently searched, poorly fitted. The minds that close the gap sit in the top-left: high fit, rarely searched. The entire task of a good search is to move the board up and to the left.

It also changes the test of capacity. A manufacturing board seat is not honorary: it can require reading detailed capital proposals and, on occasion, walking the plant. A director on too many boards cannot do either — so the search must weigh head-room and the willingness to show up as seriously as it weighs pedigree.

In practice the search runs in two passes. The first maps the gap in writing — the capabilities this particular board lacks, stated against its actual capital plan and safety profile. The second goes looking for them where they live, usually a rung or two below where boards habitually recruit.

EXHIBIT 05 FACT PERSONNEL

Where the missing capability actually lives



The operator's mind sits one rung below where boards look. *The plant heads, EHS leaders and industrial CFOs who fit the gap (top-left) are rarely on a board shortlist; the names boards reach for by habit (bottom-right) are the most comfortable and the least equipped to read a plant. A search mapped to the brief moves the board up and to the left. Illustrative; Fact Personnel framework.*

THE FIX Map the capability across operations, safety and industrial finance — not across the chair's contacts. The right director for a manufacturer's board has usually run a plant, not just sat above one.

03

The question *that earns the seat*

SECTION THREE

Issue No. 01 argued that a board should assess against the brief, not the résumé — testing for the qualities a CV cannot certify: judgement, capacity, the nerve to dissent.

In manufacturing that test has two parts that must both be answered: does the expansion beat its cost of capital, and is the plant safe? A candidate who can answer both is the director this board is missing.

3.1 — THE QUESTION THAT EARNS THE SEAT

Does it beat the cost of capital — and is the plant *safe?*

For a manufacturing board, the whole assessment collapses into one question asked two ways. **Does it beat the cost of capital** — can the candidate read a capital proposal as a return on capital employed against a hurdle, not as a revenue line? And **is the plant safe** — do they understand that the occupier's duty, and behind it the board's, is not discharged by receiving an incident report?

The table below turns each part into something you can actually test in an interview, because the point is never to hear a candidate agree that capital discipline and safety matter — everyone agrees — but to watch whether they can demonstrate the habit of mind under questioning. The good signals are concrete; the red flags are abstractions delivered with confidence.

The two halves are not interchangeable, and a board needs both covered. A brilliant capital allocator who cannot read a safety case leaves the gravest risk ungoverned; a safety-minded operator who waves through every expansion lets the company shrink in the name of growth. The rare director holds both, and is worth searching for precisely because of it.

A candidate who answers both with concrete fluency is closing the gap this board was built blind to. A candidate who answers in the abstract is the comfortable choice whose cost stays invisible — until a return disappoints, or a plant does, and the board discovers it never had anyone able to ask.

EXHIBIT 06 FACT PERSONNEL

The questions that reveal what the CV cannot

QUALITY	WHAT TO PROBE	A GOOD SIGNAL	A RED FLAG
• **Does it beat the hurdle?**	Take a past expansion; ask them to walk its actual ROCE against the cost of capital, not its revenue.	Separates return from growth; names the hurdle rate unprompted.	*Talks revenue and capacity; treats 'accretive' as the test.*
• **Is the plant safe?**	Ask what the occupier's duty under the OSH Code means in practice, and what they would read first.	Knows the duty sits with the board; asks for leading indicators, not just lagging.	*Defers safety to management; reads only the incident count, after the fact.*
• **Operational depth**	Ask them to describe a plant problem they personally owned, and how they fixed it.	A concrete operating story; fluency in how a factory actually runs.	*Has only ever seen plants from the boardroom or the annual report.*
• **Independence on capex**	Ask for a time they opposed a capital project the promoter wanted, and what it cost them.	A concrete instance; comfortable being the dissenting voice on growth.	*Cannot recall dissenting; frames challenge to expansion as disloyalty.*
• **Capacity**	Count the other boards, honestly, and ask when they last walked a shop floor unannounced.	Head-room, and an instinct to see the plant, not just the pack.	*A full slate; governs manufacturing entirely from the boardroom.*

Each question asks for evidence, not assertion. *Anyone can claim capital discipline and safety seriousness; far fewer can walk a real expansion's return or name what they would read in a safety report first. Listen for the difference between a description of diligence and a demonstration of it. Illustrative; Fact Personnel framework.*

REMEMBER The seat is not earned by seniority or an industrial pedigree. It is earned by the ability to read both the capital case and the safety case — and to challenge each before the cost of getting it wrong arrives.

EFFECTIVENESS

A compliant factory files its safety report and approves its capex. An effective board asks whether either one is true.

IN CLOSING · MANUFACTURING & ENGINEERING

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IN CLOSING

The compliant factory files the report. The effective board *reads the plant.*

India moved its industrial floor this year — the OSH Code, 2020 consolidating what a 77-year-old statute could no longer carry. That floor is real, and it matters. But a floor tells a board what it may not do; it cannot tell it whether the capital it approves will pay, or whether the plant that spends it is truly safe.

The effective manufacturing board is built above the floor, by choices the rulebook never makes. It recruits a director who has allocated capital against a hurdle and lived with a safety committee — and who will challenge an expansion the promoter is proud of, and a safety assurance the plant is keen to give.

None of this is exotic. It is ordinary operating diligence, applied to two questions most boards still take on management's word. The manufacturers that govern well are not luckier than the rest; they are simply unwilling to approve capital they cannot test, or to accept a safety case no one in the room can read.

For chairpersons and promoters, the implication is a brief, not a burden: decide whether your board can genuinely read your capital case and your safety case — and if it cannot, go and find the operator who can. That person will make your board measurably harder to surprise — on the day a return disappoints, and on the day a plant does.

FACT PERSONNEL'S VIEW

In manufacturing, governance is the discipline of asking *whether the next rupee of capital beats its cost, and whether the plant that spends it sends everyone home* — and appointing the one director who can read both. That is search work, not box-ticking. It is the work we do.

SOURCES & NOTES

Where the facts come *from.*

This is an original Fact Personnel perspective. The argument and all exhibits are our own; the regulatory statements are summarised in our words from the primary sources below and were verified as current at preparation. Exhibits marked 'illustrative' present our framework and search experience, not statistical research.

1 **Occupational Safety, Health and Working Conditions Code, 2020 — commencement**
The Code was brought into force on 21 November 2025, repealing the Factories Act, 1948 and consolidating thirteen central labour laws; the Central Rules were notified on 8 May 2026.

2 **OSH Code, 2020 — s. 6**
Places the primary duty for the health, safety and working conditions of workers on the occupier of the establishment.

3 **OSH Code, 2020 — ss. 13 & 22**
Provides a worker the right to remove themselves from work in conditions of imminent danger, and requires safety committees and qualified safety officers above prescribed thresholds.

4 **Companies Act, 2013 — ss. 134, 166**
Directors' duty of care and diligence, and the board's responsibility statement — the general fiduciary basis for the capital and oversight duties discussed here.

5 **Environment (Protection) Act, 1986; Water Act, 1974; Air Act, 1981**
The consent-to-operate regime administered by the CPCB and State Pollution Control Boards, under which a plant's environmental licence sits.

ABOUT FACT PERSONNEL

We find the people the role was *waiting for.*

Fact Personnel is a Mumbai-based leadership search and advisory firm. We help boards and chief executives across India's major sectors find — and build the conditions for — the leaders and directors who change what a company is capable of.

Board Search
Independent and non-executive directors recruited against the gap, not the address book.

Executive Search
CEO and C-suite mandates across our eight sectors.

Leadership Advisory
Board composition, evaluation and effectiveness.

Succession Planning
Orderly transition at the top, before a crisis forces it.

Market Mapping
A clear-eyed read of where the talent — and the gaps — actually are.

The Boardroom Brief
Our periodic perspective on boards and the practice of governance.

> **Next in this series**
> Issue No. 04 takes the chemicals & process boardroom — where the dominant question is not the most likely risk but the worst one, and what stands between the company and it.

Sentinel.
— BY FACT PERSONNEL —