



# Boardroom questions

## Board evaluation: A 'tick-in-the-box', or evaluating performance of the board?

Board Leadership Center (India)



Fluctuating economic conditions, volatile geopolitical environment, increased stakeholder expectations, emerging risks, and, also opportunities – business environment cannot be more uncertain, yet exciting. In this context, what is the role of the board, specifically, how effectively are the boards and board members, discharging their roles and responsibilities?

## Board evaluation – why bother?

Board evaluation has been mandated under The Companies Act, 2013, followed by the Security and Exchange Board of India's Listing Obligation and Disclosure Requirements (SEBI LODR) Regulations, 2015.

While the regulation makes board evaluation mandatory, whether the companies are simply 'complying' with the requirement, or, perhaps, making the most of the spirit of board evaluation is a question that boards and board members themselves are best placed to answer. Indeed, the most difficult question is whether the board members are ready, and open-minded to receive transparent feedback. Also, it is to be determined if

the board chairpersons are willing to take actions on the outcomes of the board evaluation exercise. The overarching objective of board evaluation is to examine how effectively boards are performing their roles against the goals they have set for themselves.

In times of disruption, skills and indeed experience, are critical. Hence, it is important for board members, as evaluators, to understand who they have on the table, what value do they add and for how long that is relevant. Boards need to ensure diversity in its composition and also enable synergistic conjunction and right working relationships with the management so that they can work in harmony for the organisation's success.

## What themes does an effective board evaluation cover?

A properly performed board evaluation can help the board identify gaps in skills, if any, and redirect its efforts to create impact, if utilised strategically. While

the themes for a typical board evaluation vary from one organisation to another, they largely cover:

Board structure	Board dynamics
Board composition	Frequency of meetings
Committee structure	Vision and business strategy
Boardroom diversity	Ethics and compliance
Skillset of the members	Risk and independence
Independence of directors	Process and procedure

## Benefits of board evaluation

- Identifies strengths and areas of improvements for the board as well as the individual board members
- Identifies gaps, if any, in skill sets required for the board
- 360-degree feedback on the working of the board as a 'team'
- Succession planning for the board.

## Outcome

The result of the assessment underlines the need for appropriate action, as necessary. It could range from amendments in board composition to significant steps towards rectifying the factors that contribute to board dysfunctionality.

Performance evaluation process is based on a trusted connection between people that generates deep and valuable insights. Therefore, the process must ensure confidentiality in order to inspire real candour and transparency.

## External stakeholders and board evaluation

As the evaluation process assesses the board, the committees and the individuals, the disclosures boost investors' confidence and interest in the organisation.

## Modus operandi

An effective board evaluation exercise can go a long way to strengthen corporate governance practices and provide companies a competitive edge in the long run. However, this also depends on the path chosen for evaluation — internal or external?

While internal evaluation processes have their own benefits, engaging with an external body can bring its own advantages. Many countries in Europe, especially the U.K., advocate an external evaluation<sup>1</sup> by an independent body.

## Potential benefits of internal and external board assessment

Internal	External
<ul style="list-style-type: none"><li>• Full understanding of the organisation</li><li>• No additional cost</li><li>• Confidentiality</li><li>• Simple and speedy process.</li></ul>	<ul style="list-style-type: none"><li>• Comfortable one-on-one meetings</li><li>• Transparency</li><li>• Objectivity</li><li>• Experienced professional doing the evaluation</li><li>• Confidentiality.</li></ul>

Interestingly, in the recent times, it has been observed that an increasing number of organisations are opting for an external body to conduct board evaluation on their

behalf. On enquiry, a common reason for such a move appears to be 'to bring more objectivity and rigour to the process'.

<sup>1</sup> Evaluating Boards of Directors 2018 published by OECD



## Few questions for boards to consider

- Are the evaluations to be carried out internally or with the help of the independent expert?
- Should the performance evaluation report determine the continuance and reappointment of independent directors?
- Apart from the methodology, has the board decided the magnitude of disclosures related to evaluations in the report?
- How can boards derive maximum benefits from the evaluation process? What is the investment of time and effort required on the part of the board and the chairperson to carry out the evaluation process?
- Has the board prepared a road map ready for the concerns underlined during the evaluation process?
- How does the board aim to ensure confidentiality for success of the evaluation exercise?

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