

# Board Evaluation: The Force Driving Board Effectiveness

THOUGHT PAPER

By **Varun Sarin**



[istock.com/igor\\_svetlichnyi](https://www.istock.com/igor_svetlichnyi)

March 19, 2023

## Introduction

It's no secret—an effective board is essential to the success of an organization and right at the heart of driving this effectiveness are comprehensive and consistent board evaluations and self-assessments. As highlighted in our previous [thought paper](#), the magnitude and frequency of change today warrant a new kind of board leadership and as some of the most recent studies point out, in their current shape, many boards may be out of their depth. To lead their organizations through uncharted territories, boards must recognize and work to improve their prevalent issues and blind spots while building on their strengths. This is where board evaluation comes in. When done right, board evaluations steer the organization and its board in the right direction, giving the directors an opportunity to review and remove any obstacle hindering board success. Simply put, evaluations help boards become stronger. Therefore, evaluating the overall health of a board — not only from a compliance perspective, but also examining its performance from a composition, structure, process, and practices point of view, needs to sit high on the corporate governance agenda of every organization today.

Given the critical role of evaluations in the continuous improvement of board performance, it is imperative that the assessment methodology used is well thought out and designed to enhance, not simply maintain, the status quo. After all, the quality of the assessment results is only going to be as good as the process of evaluation. This brings us to the objective of this thought paper. In the current business landscape, do board evaluations need an overhaul? How can today's boards ensure that they derive the highest value from their evaluations and enhance board effectiveness? Combining our experience, research, and valuable insights garnered from industry leaders, we answer the above questions and examine what a valuable board evaluation should be based on.

### Board evaluation: What does an effective evaluation look like?

Typically, a board evaluation examines the role, broadly speaking, the advisory, strategic, and managerial functions, of the Board and the accompanying responsibilities, and assesses how effectively these are fulfilled by the board. In many ways, it is not very different from a routine health checkup. The objective is to find out how well you are doing. A thoughtful and exhaustive board evaluation should, at the very least, examine the following:

- **Board structure:** The composition, constitution, and diversity of the board as well as that of its committees, competencies of individual members, and frequency of meetings.
- **Board dynamics:** From the quality of board meetings to CEO/ senior leadership interaction, the cohesiveness of the board agenda and the information available for robust decision-making.
- **Appropriate board behavior:** The behavior patterns of individual directors and the culture of the board as well as its committees, and how this supports the effective functioning of the board.
- **Business strategy governance:** The board's role in furthering and supporting company strategy, determining the extent to which individual directors contribute to achieving the organization's objectives.



**Board evaluations are far more structured and prevalent with listed companies and a large percentage of privately held, and young ventures still need to formalize it; even today, very few have a formal/structured approach for evaluating board performance.**

- CHRO & Board Advisor

While evaluations have emerged as a top corporate governance priority, in India, it is mandated by regulations. Earlier, this meant that only listed companies invested in board evaluations. But like most things in the world of business, this trend too is fast changing. The rise in shareholder awareness, mounting stakeholder expectations, a growing focus on ESG, the disruptive business environment, and the overall pace of change are nudging all organizations, listed and unlisted, to check how well their boards are meeting the demands of today's business environment. Globally, progressive boards do not wait for mandates to execute evaluations. They do so voluntarily, often involving external evaluators to carry out a more objective assessment. The reason for this becomes evident when one considers the impact of an effective, high-performing board on organizational success. The future of a company rests on the shoulders of the board. From identifying new opportunities for growth to providing strong guidance,

from building future-focused processes to fortifying a pipeline of leaders by ensuring effective succession planning — the right board is always actively invested in strengthening the organization, bringing together their individual expertise and experience to act as one cohesive unit. **Board evaluations must be designed to capture and assess how well the board members are fulfilling this role.**

As one of our respondents, a Board Advisor and Chief Human Resources Officer, elaborated, *“Some of the key metrics to be looked at while evaluating board performance are the impact on the company’s leadership, risk assessment and mitigation strategies, strategic inputs, and their outcome as well as influence on the company’s performance, board meeting attendance, preparedness, and quality. It is also imperative to include a peer-rating mechanism where individual directors, the Chair included, give scores, and share their take on other members. The Chair of the People’s committee or the CHRO, can share a questionnaire with meaningful and pertinent questions with all members of the board during the annual evaluation. The key metric to evaluate board effectiveness is to check if individual directors have added value and made a credible impact, especially on their specific areas of expertise. It is also important to have a neutral and fair evaluation by bringing in an outside perspective, using the right tools, or an expert to prepare performance scorecards thereby ensuring neutrality in the process. Diligent, for example, is an effective board management software that is used for assessments across public and private boards.”*

Objectivity is a core element of an effective evaluation. With nearly [2 out of 3 Indian listed companies](#) being family-owned or including board members who are related to the promoters or the promoter group, maintaining neutrality becomes all the more relevant.

It must also be noted that evaluations become far more meaningful when senior members and leaders of an organization reinforce its value by taking ownership of the evaluation process. Take Tata Group as an [example](#), senior leaders at the company have developed a business excellence model for the regular, systematic assessment of leadership systems, including board governance. The assessment framework reinforces the company’s values, ethical behaviors, and performance expectations. This includes mechanisms for senior leaders to conduct self-examination, receive feedback, and improve overall performance. Such involvement of leaders ensures that board evaluations have a greater impact and helps set stronger standards of excellence.

## Focus on diversity



**52%** of companies conduct a combination of full board, committee, and individual director evaluations

Source: <https://www.conference-board.org/topics/board-practices-compensation/board-refreshment-and-evaluations>

In today’s hyper-competitive and demanding business environment, a homogenous board runs the risk of practicing what is called ‘*groupthink*’ which typically results in unanimous decisions that lack critical evaluations and are focused on minimizing conflict. Heterogeneity in the boardroom helps counter this by fostering individuality and creativity in delivering solutions, and also provides a more comprehensive oversight to the operations of the organization through enhanced sensitivity to a wider range of possible risks such as reputation and compliance risks. Directors contribute to boards in the form of knowledge, nuanced guidance, and advice, liaisons with important stakeholders, maintaining external relations, and assisting in strategy formulation. Therefore, a board with members from dissimilar backgrounds, equipped with diverse leadership skills, experience, and networks, ultimately leads to better decision-making and greater business performance.

“

**Boards of younger companies often lack diversity, have deeper investor representation, and do not have well-defined assessment metrics. It is important that they get the composition right from the very beginning and engage with experts who can help them establish guardrails, objective evaluation, and diverse representation. While public boards have been successful in this regard, boards of emerging companies still have a long way to go.**

- Founder and Angel Investor

One of the top priorities of board evaluations then is to promote diversity and lead to meaningful changes in the board composition. Evaluations can be powerful catalysts in supporting a board’s diversity efforts, especially when carried out by independent facilitators. Contrary to internal assessments, external

evaluations can challenge board complacency and recommend a greater degree of board diversity leading to stronger governance and performance. In S&P 500 companies, for instance, conducting a combination of full board, committee, as well as individual director evaluations—carried out by independent facilitators—has become [commonplace](#) with more than half of these companies conducting such evaluations. Carrying out individual director evaluations enabled organizations to discuss and closely examine the skills and expertise needed on the board to successfully operate in the current business climate. At the same time, full board and committee evaluations assessed the board's commitment towards ensuring diversity beyond meeting regulatory requirements. **The key takeaway here is that board evaluations, across organizations, must continue to evolve to capture the increasing value of board diversity.**

## Parting thoughts

Conducting well-planned, impactful evaluations is the cornerstone of effective performance. However, **the board evaluation process should not only be used simply as a way to assess whether the board, its committees and its members have satisfactorily performed their required duties and responsibilities. Instead, it should challenge and test the members' readiness, competence, and agility as individuals and as a collective to drive the organization toward success in a highly demanding business environment.** Before designing and determining the most appropriate approach for the evaluation process, boards should identify the specific goals and objectives they want to achieve through the evaluation, and review how these goals are being met and the value they deliver, at every step.

## About the Author



**Varun** has over 20 years of experience in the corporate world, of which the last 15 years have been in executive search where he has led and managed critical client relationships across diverse industries. While working at

EMA Partners, he managed engagements that span the sr. leadership suite with a special focus on Digital, Tech & IT Services, VC/PE-Portfolio and Professional Services. He was instrumental in developing firm's capabilities in the Digital & Technology space. Before co-founding PeopleAsset in December 2018, Varun was leading the tech practice at one the fastest growing executive search and hiring firm, headquartered in India.

Prior to joining EMA Partners, Varun was associated with Korn/Ferry where he was part of the Global Technology Markets (GTM) India practice. His areas of focus at Korn/Ferry included: Business & Professional Services, Business Information Services, IT/ ITeS, Electronics, Software & Emerging Technologies, Consulting, Big Data & Analytics, HR, and Finance. Earlier, between 2008-2011, Varun ran his own search firm before which he was associated with a niche economic, business and market research firm, IMA India.

Varun comes in with multi-domain, multi-functional expertise in Executive Search, and Leadership Coaching & Development. He had successfully completed Decision Dynamics Certification in the Executive Assessment Suite, is an Executive Coach, and regularly advises early-stage ventures/ entrepreneurs.

### About PeopleAsset

PeopleAsset is a boutique Executive Search & Talent Advisory Firm geared to deliver high quality results. We help our clients dramatically improve performance through focus on leadership & talent.

Visit us at [www.peopleasset.in](http://www.peopleasset.in) for more information or write to us at [info@peopleasset.in](mailto:info@peopleasset.in).

**Varun Sarin** is the Co-founder, Director at PeopleAsset.  
Copyright © 2023 PeopleAsset, ExecHunt (India) Private Limited.