Best Practices of High Performing Boards

Creating a High-Performing Company Board

A new session of Egon Zehnder's Directors Development Program took a holistic look at board management to uncover "The Best Practices of High-Performing Boards." It was led by **Dinesh Khara**, chairman of the State Bank of India and a veteran of board leadership for over a decade. Khara discussed the various factors that shape a board's effectiveness, from its long-term vision to specific responsibilities to agenda setting.

How a Long-Term Vision Can Craft Successful Strategies

The societal and economic shocks of the last few years have led to plenty of disruptions in the business world. These events have also made clear that organizations need a medium- and long-term vision to navigate them through unexpected financial turbulence—exactly the perspective that high-performing boards should establish.

Khara explained that as company management takes care of "the nitty-gritties" of day-to-day operations, boards must seek to build a longer-term policymaking strategy. "Unless and until they have that perspective—very clearly articulated—it becomes a challenge to lead management in a direction that will ensure the sustainability of growth."

Boards can build such a strategy by analyzing the economic, social, and political issues arising across the wider world, then customizing their responses to best fit their local context. "If we look around and pick up what is happening, it gives us the ingredients that we can perhaps put to use for creating the recipe which best suits the organization and the country," Khara explained.

An important component of this vision is connecting the interests of multiple company stakeholders, including shareholders, into a coherent strategy. In a world of continuing disruptions, this can be a challenge. Nevertheless, "the board is expected to keep pace or maybe ahead of times so that they can guide the management in that direction," Khara said. "And thereafter, it's for the management to put the actionables in place."

Drawing the Line Between the Board's Responsibilities and those of Management

If the board is responsible for setting broad company policy, management's role is to put that policy into practice. But this delineation of roles isn't always clear, with Khara going so far as to call it "a very thin line."

This is especially true for financial institutions, as regulators require many issues to be reported to the board. Despite this, Khara reiterated that the board should stick to an oversight role and ensure the organization is on the right track—leaving the actual execution of policy to management. "The 'doing' has to be done by the executive," he said.

> Boards should take this oversight role seriously, and question management decisions if things aren't going well. Khara said that some boards have a tendency toward complacency, and don't rigorously assess whether management is effectively instituting the wider strategy.

The nature of board oversight and assessment of management may blur responsibilities between the two—again leading to what Khara called the "very thin line." But through time and practice, these organizational distinctions can become clearer as board directors and managers continue to collaborate.

"There cannot be any one-size-fits-all theory that can suggest where one should draw a line," said Khara. "But it is out of sheer practice that one will know how to manage that time better, how to be effective, and how to be meaningful."

Striking a Balance in Board Agenda Setting

With its specific responsibilities clarified, a board's agenda can fill up with an assortment of compliance-related items, reporting items, growth items, strategy items, and more—leading to a long list of issues to discuss, especially if some members feel certain items are worth debating and gathering more information for.

How to balance this agenda is something each organization must decide for itself among board members, but Khara outlined some potential solutions from his own experience.

First, Khara described holding one larger strategy meeting per year. This meeting can last up to three days, as board members establish a path the organization will follow for the next year and beyond. Down the road, a mid-year strategy review will allow the board to assess how well they are following the path they decided on in the original meeting.

Beyond establishing a forward-looking strategy, there are plenty of narrower issues and challenges that can emerge at any given time to draw the board's attention. Khara described how one can streamline an understanding of these issues through short, informal meetings with directors. These meetings are used to update directors about what's happening in the organization and the wider environment. Doing so can also serve as a "confidence-building exercise" according to Khara, as directors feel more valued and integral to the company's functioning.

"So the directors are up to date in terms of knowledge about the sector and they are in a position to contribute even more meaningfully," highlighted Khara, adding: "And in the strategy meeting, we have seen that they come very well prepared, and they challenge the management, which also helps us to improve upon what we are thinking."

Board Composition and Ensuring Productive Discussions

Board agendas can be built to enhance debate as much as possible, but an even more important factor for productive discussions is deciding who will actually sit on the board.

To this end, Khara recommends composing a board with a diversity of talent and skills. This means having a variety of people from different backgrounds on the board: IT, accounting, risk, etc. But it also means ensuring those people have the ability to contribute to discussions outside of their core skill set.

"We want people who are familiar with the industry, but who also can think beyond it, so that the organization can also move beyond," Khara emphasized.

Even after the board has been fully established, it's still important to make sure members are having healthy discussions on the issues in front of them. It's easy for a small number of directors to dominate conversations and crowd out more diverse perspectives.

> According to Khara, the board chair plays a vital role in making sure all members can contribute to the discussion. This can be done by keeping the floor open for continued contributions and questions, or directly inviting members to speak.

He recommended that new additions to the board be fully briefed when they come on, so they can immediately contribute to discussions on ongoing matters.

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