Enhancing Board Performance through Evaluations

A new session of Egon Zehnder's Directors Development Program examined the best practices for board evaluation and review, underscoring the importance of this vital yet sometimes misunderstood process. Leading the discussion was former Egon Zehnder Senior Partner **Sanjiv Sachar,** who now sits on the boards of KDDL and Info Edge, and earlier was the NRC Chair at HDFC Bank.

Boards Are Often not Eager to Begin Their Evaluations

Across the whole of corporate governance discussions, board evaluation is the one issue that "conveniently gets left out," in Sachar's words. This oversight can be particularly jarring when held against the routine performance reviews that CEOs, management, and other company stakeholders undergo. As key contributors to an organization's performance, Sachar highlighted it's just as important for board members to face such evaluations to allow the company to grow.

It should be noted that board evaluations are a legal requirement. Yet Sachar described how boards are often not proactive in initiating these self-reviews, leaving it up to the company secretary to force the issue when the deadline for the annual report draws near. "That's a very sad situation if a company secretary has to tell you that there is an important responsibility that you as a board have to look at," he said.

Sachar pinpointed the reason for this delay as usually being a debate around processes. Members debate whether to do the review internally or externally, and what the methodology for the review will be. There is also, of course, a "sense of nervousness" about how the evaluation will affect board members' ability to work together.

How Evaluations Can Strengthen Boards

If members can push past the delays, debates, and "nervousness" Sachar mentioned, a well-organized evaluation can strengthen boards' processes and collaboration, ultimately benefitting the company as a whole.

"Having spoken to lot of board members, most of their feedback was that only after we had a formal process of doing a board evaluation did we feel that we were functioning as a board more effectively," explained Sachar. This higher level of functioning encompassed better teamwork, a more consistent flow of board-relevant information, and an improved grasp of key strategic issues.

Sachar outlined one example of a transformative evaluation finding from his experience. In gathering feedback on information flow and meeting agendas, the confidential responses reflected a unanimous challenge that members were stressed for time.

"They felt that meetings had large volumes of agenda items and that the quality of the discussion was not enriching," said Sachar. "They were making decisions based on half-baked communication, and the presentations were not very clear."

Yet the more surprising finding in this matter was that this challenge had never been brought up in regular discussion or conversation outside of the evaluation.

"The chairman said, 'Look, how come this point never came up in any of the conversation, why does it have to wait for a board evaluation to happen?'" Sachar described.

Solutions to help the time-stressed members were clear: more frequent meetings, a limit on agenda items, streamlined presentations, and more. But the real revelation was uncovering the problem in the first place. Without the evaluation, the issue would have never been noticed and addressed, to the continuing detriment of the entire board.

Gathering and Understanding Feedback for Board Evaluations

When deciding to initiate a board evaluation, the first question is often whether it will be internally or externally led.

> External evaluators will naturally come to the table with less bias and a more honed structure and methodology. Therefore, Sachar recommended that every two years or so, boards use an external evaluator to understand the latest best practices for board reviews. Then, in other years, boards can use those lessons to conduct their own internal reviews.

Yet Sachar made sure to mention that regardless of who leads the evaluation, the more important factor is the rigor and seriousness of the review itself. If the evaluation becomes a mere "check the box" exercise, then it doesn't matter who is conducting it.

An indispensable element of this rigor is gathering candid feedback from individual board members. "That has to be done," Sachar emphasized. "That cannot be a corridor discussion." This feedback can be anonymous, in order to help ensure an unbiased evaluation.

"Again, from the experience I have had is that in organizations where they did individual evaluations, the board members' consensus was that they felt that they were more effective as a board," Sachar discussed.

> Of course, to review your performance as a member or the performance of the board as a whole, there needs to be a clear understanding around what objectives individual members and the board are responsible for, and what success in those areas looks like.

"The CEO and the entire board have to have a very focused discussion to say, 'These are our objectives,' said Sachar. "Only then can you define and set the criteria on which you are going to be evaluating the board."

This discussion should come early on and be entirely separate from the actual evaluation of those objectives, which comes later. Sachar warned that in this initial discussion, a multitude of competing objectives may arise, leading to a debate over prioritization. To overcome this, he recommends looking at objectives on a year-by-year basis—in other words, boards should think about what is most important to focus on that year and evaluate themselves in that area. "So this year it could be those four objectives, and next year it could be the other ones," Sachar explained.

Board Evaluations in The Financial Services Sector

In speaking to an audience from the financial services sector, Sachar made sure to bring up a salient point: what regulators will think of candid board feedback.

"I think one of the concerns in the back of our mind is that this report or this feedback is going to be accessible to the regulator," he said. "Is he going to look at this report and say, 'This bank does not have corporate governance?'"

This particular concern touches on ideas of fairness and openness—and also the "maturity" to understand that despite those concerns, board members should follow the principles of transparency.

"My experience of having sat on the board and interacted with the regulator is that the regulator's ability to contribute to the success of the organization is in finding issues where we need improvement," Sachar discussed. "Not because they have to find a fault."

For Board Members, Learning Never Stops

When an individual joins a board, they are bringing with them a wealth of knowledge and experience that will help serve the organization. But that doesn't mean that that knowledge and experience can't be expanded, nor that there is nothing left to learn.

"Being on a board is a great learning opportunity," Sachar reflected. "Because if you are going to be meaningful, if you are going to be able to contribute, and if you are going to be relevant, that learning should never stop."

Board evaluations are a chance to do just that—to find areas where members can learn and expand their capabilities for the company's benefit. Sachar told the story of one board member he knew who came from a technology background but found himself tuning out for discussions about areas outside his expertise. A board evaluation brought this to light, and the member resolved to learn about and contribute to discussions across a wider range of issues. "He said, 'I realized that I was not serving as a true director,'" Sachar concluded.

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