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BOARD EVALUTION: A PATHWAY TO ENHANCE BOARD EFFECTIVITY AND EFFICIENCY

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I. ABSTRACT

The best approach to ensure Board members are fulfilling their responsibilities and adopting effective good governance practises is via regular evaluation of the Board's performance. Effective boardroom evaluations need well-defined procedures and consistent processes, as well as the full support of the Board. The paper promises to provide a comprehensive and exhaustive analysis about the process of Board Evaluation. Throughout this paper, the research encompasses several topics and critically examines the challenges faced by the Directors, the guidelines issued by Securities and Exchange Board of India and the Significance of the Process.

II. INTRODUCTION

There exist numerous challenges that are faced by the Board of Directors and the Companies in the dynamic era from management of the team, risk management, sustainability, contemplating and reciprocating the efforts by the shareholders, among others. The massive growth in technology and globalisation places importance to strengthen the board through the self-assessment process and enhance the effectivity and efficiency of their functioning providing a structure for development. An annual board assessment is a voluntary or regulatory requirement. The evaluation approach and procedure have a degree of adaptability as well as worldwide variation. Typically, the process is adjusted to the needs of the organisation, its current condition, its lifespan stage, the structure and the culture along with the procedures. However, there is no universally accepted and relevant format suited to all businesses.

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III. ANALYSIS

Primitively as pronounced in the *Clause 49 of the Listing Agreement*, the evaluation of the Board was not a compulsory criterion. The evolution of the same was initiated by the amendment in the *Companies Act 2013*, along with the*Securities and Exchange Board of India (SEBI) (Listing Obligations and Disclosure Requirements) Regulations*, *2015*, revising the *Clause 49* by terming the evaluation process mandatory for the Board as well as the Independent Directors. SEBI issued a guideline paper to educate firms and their boards on the review process's numerous facets. According to SEBI's directive, the company's board of directors and independent directors should be evaluated using criteria developed by the company's nomination and compensation committee. Each director's performance would be assessed.

Additionally, The Companies Act provides further guidance on Board Evaluation beyond that provided by SEBI which includes, a statement detailing how the Board, its committees, and individual directors have been evaluated formally annually must be included in the report by the Board of Directors of a listed business and any other public corporation having such paid-up share capital as may be required and the role and responsibilities of the Nomination and Renumeration Committee.

To critically analyse the first required assessment exercise given in March 2015, there has been a wide range of compliance from organisations, with many being willing to follow simple protocols when conducting evaluations. Some businesses utilise questionnaires using Likert-style rating scales, while others rely on one-on-one interviews and peer reviews, and still others use internal procedures and/or external consultants to perform evaluations. Despite the fact that nearly every Indian firm may benefit from disclosing improvement areas indicated by the board during the evaluation process, hardly none of them do so. Therefore, The Securities and Exchange Board of India (SEBI) issued a "*guidance note*" in January 2017 to address these concerns and to provide listed businesses with clear guidelines on the numerous components and complexities involved in the appraisal process.

According to a notice published by the Securities and Exchange Board of India (SEBI), listed businesses are not obligated to disclose any extra disclosures beyond those already indicated, although they are free to do so if they so want. The guideline paper is a break for SEBI from the usual practise of setting rules and procedures, since it acknowledges the need to encourage a board culture that satisfies its considered moral responsibility with regards to all stakeholders.

Now, more than ever, an objective evaluation of the board is necessary because of its growing influence in shaping a company's future. The board's performance is to be reviewed in a rigorous, in-depth, behind-closed-doors procedure that takes into account all difficulties, no matter how difficult. The ideals of stakeholder democracy must be upheld when evaluating performance in the context of the company's strategic goals and financial results. Poor assessments can lead to governance failures in the same way that thorough evaluations can help improve the board's efficiency. It is not in the best interest of the board to let members' reluctance to recognise their own deficiencies when highlighted prevent the board from working on areas for development. When assessing the responsibilities, relationships, and individual performance of the board, an outsider's perspective might be invaluable. External consultants can be utilised to steer the process of appropriately informing the board before the implementation phase itself, after the clear articulation of the objectives and scope of the exercise and the careful selection of metrics and instruments used for assessment. In the last stages of the board's review, any actionable suggestions should be discussed. It suffices to say that providing constructive criticism to individuals who have been evaluated is important to the achievement of any evaluation process.

IV. THE SIGNIFICANCE OF THE PROCESS

As per the aforementioned analysis and discussions, there lies an understanding that the board evaluation process plays a significant role. The advantages of frequent evaluations for evaluating a board motivate directors to work together effectively and to perform at a high level. It promotes an adequate management and team performance by encouraging directors to cooperate efficiently in the boardroom, hence decreasing friction. Accountability is a key benefit of performing frequent board reviews.Informed decision-making might be facilitated by means of thorough board reviews. it draws a picture as regards to the effectiveness and decision-making potential of the board.

To support the above statements, the precedent of *Rallis India Limited* can be taken into consideration. In the year 2008, *the Chairman, Mr R Gopalkrishnan,*initiated the evaluation process. The Chairman requested that all directors offer him their honest feedback on

(1) how the Board is working and

(2) how it may be improved.

The Chairman also requested that Mr. Shankar, the CEO, record the thoughts of management on the Board's performance.[2] The chief executive officer administered a survey to 10 managers (during a meeting) using a questionnaire to collect information for statistical purposes. The results have been compiled and forwarded to the Chairman. The Chairman evaluated the board members' feedback and management's conclusions. He split his report in half, with the first half containing comments from directors and the second half containing responses from management. Both included sections labelled "Positives" and "Suggested Areas for Improvement." Following the 2008 AGM in May, the Chairman provided a short report to the Board of Directors. The chief executive was there and took notes during the conference. Extensive talks led to concrete recommendations for enhancing Board procedures, financial monitoring, and the Board's role in strategy development. The Board's effectiveness and communication with management have both increased thanks to the measures that were suggested.

Independent members (often other CEOs, past CEOs, and business leaders) with "compliance-orientation" knowledge (accountants, auditors, and attorneys) currently make up the majority of boards at the corporations in Forbes' sample.

An effective board may help businesses get an edge in the market by fostering relationships with policymakers, citizens, and other interested parties. Provides useful insight into the present status of the dynamic corporate environment in which a firm operates, allowing its executives to make more informed decisions and avoid tunnel vision. New business prospects and a clearer understanding of the company's peers and rivals are two further benefits that boards may give. Last but not least, determined board representatives with appropriate experience may assist corporate leaders in identifying "expertise gaps" in their executive teams. Boards may have the greatest influence on a company's business strategy and innovation prowess when they work together with the company's management.

V. CONCLUSION

Considering that nearly two-thirds of Indian listed firms are either family-held or have Board Members with ties to the promoters or promoter group, impartiality in the procedure or progress toward action-oriented review becomes increasingly critical. In order to increase Board performance, forward-thinking companies and Boards are now looking beyond the traditional "hygiene elements" such as quorum, meeting attendance, committee make-up, peer review, etc.

Board assessments are anticipated to play a significant part in guaranteeing firms' competitiveness as India strives to become a USD5 trillion economy. It's crucial to consider the board's dynamics and how it operates in this context. Dedicated, vigilant, and curious corporate boards are essential for a firm to flourish and realise its full potential.