

From Compliance to Effectiveness: The Next Stage of Board Evaluation



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Evolution of Board Evaluation in India

Board evaluation was introduced in India through Section 134 of the Companies Act, 2013. It made disclosure of board evaluation mandatory for listed companies and specified public companies. In 2014, Clause 49 of the Listing Agreement was further strengthened, making performance evaluation of independent directors mandatory for listed companies.

To support implementation, a detailed Guidance Note on Board Evaluation was issued by SEBI in 2017. The objective was to educate listed entities and their Boards on the various aspects of the evaluation process and to improve both board performance and corporate governance standards. The Guidance Note covered the scope of evaluation, the process and criteria to be adopted, feedback mechanisms, action plans, disclosure requirements, frequency of evaluation, responsibilities for conducting the process, and periodic review of the framework itself.

India has broadly followed the UK approach to corporate governance. However, one significant difference remains. The Indian model relies primarily on internal evaluation and peer feedback. Consequently, the quality of the process depends heavily on the willingness of directors to provide candid and differentiated feedback to one another.

In practice, this is often difficult. Indian corporate culture tends to place a premium on hierarchy and collegiality. Directors may be reluctant to provide critical feedback, particularly to perceived seniors or long-standing board members. In promoter-led companies, there may be an additional reluctance to challenge individuals who played a role in appointing directors to the board. The result is often uniformly positive evaluations that provide limited insight into actual board effectiveness.

The UK has sought to address this challenge through periodic independent assessment. All FTSE 350 companies are required to undertake an externally facilitated board evaluation at least once every three years. The evaluator must be identified in the annual report, and companies are expected to disclose key findings, actions taken, and progress against earlier recommendations. This emphasis on external scrutiny, transparency, and demonstrable improvement creates a stronger mechanism for board accountability.

India currently requires annual board evaluation and disclosure that the process has been undertaken, but not disclosure of the findings. A number of progressive companies, including Infosys and TCS, voluntarily provide more meaningful disclosures on evaluation outcomes and follow-up actions. Such companies recognise that the purpose of evaluation is not merely compliance but the continuous enhancement of board effectiveness and contribution to long-term value creation.

Recent developments suggest that regulators are beginning to move in a similar direction. External board evaluation has now been made mandatory for PSU banks from 2025 following concerns around governance, oversight, and board effectiveness. The evaluation framework is expected to cover board composition, structure, committee effectiveness, risk oversight, ethics and compliance, and alignment with strategy.

These developments raise an important question. If board evaluation is intended to strengthen governance and provide early warning signals, why do governance failures continue to emerge without warning? Why do issues relating to management misconduct, inadequate oversight, cultural weaknesses, or leadership failures often remain undetected until they become significant problems?

The answer may lie in the way board evaluation is currently conceived and implemented.

The Real Purpose of Board Evaluation

The ultimate purpose of board evaluation is not *only* to confirm that governance processes have been followed. Its purpose is to assess whether the board is effectively discharging its responsibilities and contributing to the long-term success of the institution.

An effective board provides direction, oversight, challenge, and support. It ensures that management remains focused on sustainable value creation while safeguarding the interests of shareholders and other stakeholders. Equally important, it acts as an early warning system by identifying emerging risks that may not yet be visible in financial results.

Such risks may include leadership weaknesses, cultural issues, succession gaps, talent shortages, ineffective board-management engagement, or strategic blind spots. These are often the factors that determine long-term success or failure, yet they remain difficult to capture through conventional board evaluation frameworks.

The role of boards is becoming even more complex. Technological disruption, artificial intelligence, changing workforce expectations, geopolitical uncertainty, and increasing stakeholder scrutiny are creating new tensions and trade-offs. Boards must increasingly balance the interests of investors, customers, employees, regulators, and society at large.

In this environment, board effectiveness must be viewed through a much broader lens than regulatory compliance.

The key question is not whether governance processes exist, but whether the board is helping the organisation navigate uncertainty, build resilience, and create sustainable value.

Why Current Evaluation Processes Fall Short

Most board evaluation instruments used by companies today continue to reflect the framework set out in the SEBI Guidance Note. As a result, the questions focus primarily on process and compliance matters: whether information was shared on time, whether notices and minutes were circulated appropriately, whether meetings were conducted effectively, and whether committees fulfilled their mandated responsibilities.

While these are important elements of governance, they do not adequately address the broader question of board effectiveness.

The evaluation process rarely probes whether the board is contributing meaningfully to strategy, helping management navigate emerging risks, strengthening leadership pipelines, or preparing the organisation for future challenges. It provides limited insight into the quality of board discussions, the robustness of challenge provided to management, or the extent to which directors bring an external perspective and contextual understanding to key decisions or in fact there are challenges in Board management dynamics which may be dysfunctional.

Areas that are often under-emphasised include:

- Contribution to strategic direction and long-term value creation
- Participation in discussions on market shifts, disruption, organisational capability, and crisis management
- Quality of oversight on succession planning and leadership development
- Risk anticipation and mitigation
- Future readiness of the organisation
- Ability to challenge management constructively while remaining supportive
- Contribution to building organisational resilience

Over the past two decades, many boards have sought to simplify evaluation processes by shortening questionnaires and moving them to entirely online formats. Most Directors do not provide any comments besides the scores. While administratively efficient, these approaches often provide limited insight.

Most evaluations generate scores clustered near the top end of the scale and end up generating a sense of complacency. Directors are understandably reluctant to assign average or below-average ratings to colleagues, particularly in India where there is a high value on collegiality and mutual respect. It is often seen disrespectful of seniors to do so. Evaluation of individual directors is therefore frequently perfunctory, with little differentiation in ratings and limited actionable feedback.

The consequence is that evaluations often confirm that processes exist rather than reveal whether the board is genuinely effective.

Rethinking Board Effectiveness

If the objective of board evaluation is to improve effectiveness, the starting point must be a clear understanding of what an effective board seeks to achieve.

Management is rightly focused on operational execution and delivery of quarterly and annual objectives. Boards have a different mandate. Their role is to provide long-term direction, oversee risk, ensure leadership continuity, and safeguard the organisation's future.

Board effectiveness therefore cannot be measured solely by company performance in a particular year. Strong financial performance may coexist with weaknesses in culture, succession planning, risk management, or strategic preparedness. Equally, boards may take actions that strengthen long-term outcomes even when they do not immediately translate into short-term results. In crisis management situations that the current geo political disturbances may bring about, this difference may be more stark.

The assessment of board effectiveness must therefore consider the board's contribution in areas such as:

- Strategic direction and long-term value creation
- Risk oversight and organisational resilience
- Leadership succession and talent quality
- Governance and culture
- Stakeholder trust
- Future readiness of the organisation

These outcomes are inherently difficult to measure through traditional metrics. They require qualitative assessment and informed judgment. This is one reason why externally facilitated evaluations can add significant value.

The Competencies Required for the Future

Many progressive companies are already revisiting the competencies required of boards in a rapidly changing environment.

Expertise in areas such as digital transformation, artificial intelligence, cybersecurity, sustainability, data governance, organisational transformation, and talent management is increasingly becoming essential. Boards must not only oversee these areas but also understand their implications for business strategy and risk.

This creates a new challenge. The capability of individual directors in these emerging areas needs to be assessed and continuously strengthened.

Talent management deserves particular attention. Demographic shifts, evolving employee expectations, changing leadership requirements, and the pace of organisational transformation are making talent one of the most critical determinants of future success.

Boards are increasingly expected to oversee leadership pipelines, succession planning, and organisational capability. Yet many directors developed their experience in a very different business environment and may have limited exposure to contemporary talent challenges.

These developments reinforce the importance of board renewal and refreshment. Board composition must evolve alongside business requirements. While many companies maintain competency matrices, fewer use them as a basis for individual development plans or targeted director education.

Director development remains an under-invested area. Although professional firms and governance institutions have expanded their educational offerings, individual directors must also take responsibility for remaining current. Evaluation processes should provide explicit feedback on this dimension.

What Boards Should Be Evaluating

In the context of these changes, board evaluation frameworks need to focus on four broad questions:

1. Composition

Does the board have the right mix of skills, experience, perspectives, and diversity to govern the organisation effectively?

2. Conduct

Do board meetings, committees, and interactions foster constructive debate, informed challenge, and effective decision-making? Is communication between directors and management open and productive?

3. Impact

Is the board improving strategic outcomes, strengthening risk management, and ensuring leadership continuity? Is it creating value beyond formal governance oversight? Are future opportunities adequately discussed with a long term lens?

4. Renewal

Is the board preparing itself for future challenges through continuous learning, succession planning, and refreshment of skills and perspectives?

Underlying these questions are several important cultural dimensions:

- Is there sufficient psychological safety for directors to challenge assumptions and express dissenting views?
- Does management engage openly with the board and respond constructively to challenge?
- Is there openness to new perspectives and alternative viewpoints?
- Do directors possess a deep understanding of the company's context, business model, and operating realities?

Without addressing these questions, evaluations risk becoming exercises in compliance rather than instruments for improvement.

The Role of External Evaluation

This is where external facilitation can add significant value.

An externally facilitated assessment is often better suited to exploring the more nuanced aspects of board effectiveness, particularly culture, board dynamics, board-management relationships, leadership effectiveness, and future readiness.

In our experience, organisations benefit from undertaking such an assessment at least once every three to four years in addition to their annual evaluation process. A growing number of progressive Indian companies have already adopted this approach.

Our typical approach to such assessments has been as below :

1. Individual discussions with directors covering strategy, culture, future readiness, communication, talent oversight, board dynamics, and board-management engagement.
2. Observation of board and committee meetings to understand participation, quality of debate, and decision-making dynamics.
3. Review of board and committee materials over the preceding two to three years to identify patterns in agenda priorities, discussions, and oversight.
4. Individual discussions with top management to understand their expectations of the board, the value they derive from board engagement, their perception of board dynamics, and any barriers to effectiveness.

These conversations often reveal insights that are difficult to surface through questionnaires. They provide a richer understanding of board dynamics, management perceptions, and areas where expectations may be misaligned.

Management perspectives are particularly valuable because senior executives often interact extensively with directors despite having limited representation in formal board evaluation processes since there may be just one or two Board seats for Management.

Confidentiality is critical. Directors and executives are generally more willing to discuss sensitive issues openly when they are confident that individual comments will not be attributed. Of course the credibility of the external facilitator is important.

My experience of facilitating these discussions is that the findings from such reviews frequently stimulate meaningful discussion and identify practical actions for improvement. They can also create a forum for addressing issues that may otherwise remain unspoken. The ability to raise sensitive subjects, often pertaining to board dynamics or board refreshing and openly discuss options often is helpful.

External assessment should therefore not be viewed simply as an evaluation exercise. Its real value lies in facilitating reflection, strengthening alignment between the board and management, and accelerating board development.

Even in highly effective boards, individual feedback can help directors reflect on how they can contribute more effectively. Compared with executive development, individual director coaching and development remain relatively under-utilised and deserve greater attention.

Conclusion: Beyond Compliance

Board evaluation was introduced as a governance requirement. It now needs to evolve into a strategic tool for improving board effectiveness.

The challenges facing organisations today are increasingly complex. Technological disruption, geopolitical uncertainty, changing stakeholder expectations, talent shortages, and heightened scrutiny are placing greater demands on boards than ever before.

Meeting these challenges requires more than compliance with governance requirements. It requires boards that are capable of constructive challenge, long-term thinking, effective oversight, and continuous renewal. Boards must transform themselves if they are to play a constructive role in helping the organisations they serve transform.

The next stage of board evaluation must therefore move beyond measuring whether governance processes exist. It must focus on whether boards are creating value, strengthening resilience, and helping organisations prepare for the future.

The most progressive boards have already begun this journey. They devote time to reflecting on their effectiveness, discussing feedback openly, investing in director development, and strengthening engagement with management. They recognise that board effectiveness is not a destination but a continuous process of learning and improvement.

As the expectations placed on boards continue to rise, more organisations will need to adopt this broader perspective. The future of board evaluation lies not in compliance, but in enabling boards to become more effective stewards of the institutions they serve.