

## **Strategic Management for Competitive Advantage**

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**Lecture - 43**

**Improve Board Effectiveness, Board & Directors' Performance Evaluation**

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Welcome to the course Strategic Management for Competitive Advantage. To continue with the core module, Corporate Governance. The next lecture will discuss how to Improve Board Effectiveness and the Board of Directors' Performance Evolution.

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The concepts covered in these lectures are keys to improving the Board's Effectiveness; next, we will do the Board of Directors' Performance Evolution. We will also talk about the dysfunctional Board, and then only we will go for the key to improving the Board's Effectiveness.

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What is a dysfunctional board? In a dysfunctional board, you must look at the signs. What are the symptoms of a dysfunctional Board that go through? I will illustrate a few characteristics of the dysfunctional Board. Firstly, it comes to the lack of Board is having lack of confidentiality. What does it mean? You can see some boards of directors like these discussions on the Board. Decisions taken by the Board are confidential. It should not go outside the organizations or some other people who are not prerogative or purview or concerned with those.

So, it should not go; it may be found that some board members pass on the decisions, pass on the board discussion to their maybe close friends or close relatives or any other close colleagues. So, this way, it gives a lack of confidentiality.

Then, with conflicting agendas, the board members may have different or contradictory agendas, which is harmful if conflicts arise in setting the organization's directions or growth options, the future roadmap, or the course of the organization that will follow. If these are affected, this is a dysfunctional board. If the company's progress or will not be performed will not be fulfilled as per the plan.

Then the lack of order, like it is then, there may be the that some of the people may be more than shouting and all they may push their agendas and all these are the, and for these, you should have a good agenda. You designate good leaders who will chart the steering of the meeting and the designated agenda.

Then lack of respect. This is any relationship, any functioning. Good functioning depends on mutual respect. This is a primary requirement prerequisite, but it may be found that the board members who are there for an extended period of time, longer durations and all and when a new CEO comes from outside or from inside comes in they generally ignore or give that respect is not that much which is to be given or that is the lack of respect. In such cases, there will be a dysfunctional Board.

Then there is a hostile environment; what is the hostile environment, you will find the personal agendas are more, thus conflict between the 2 directors, conflict between the personalities and the meeting, board meetings become the place for attacking each other and gaining personnel score, shouting. All those things are the hostile environment. In such circumstances, organizations cannot go very healthy. In such a climate board cannot give bring out fruitful decisions. These are the dysfunctional boards and hostile environments.

The secret meetings some officials or some boards of directors may hold private meetings with this or with few directors and all, and that is it should not be done that no unofficial such conferences should not be done which will jeopardize or affect other director's work or the strategies or the domain of the project plan and all these are the that should be not be encouraged so, this also is a symptom of dysfunctional Board.

Then, personal and political agendas, many people have many directors may have personal agendas, so for their benefit and maybe having the political agendas also. This should be discarded. These are not very healthy things for organizations. All we know is that these are the signs of also dysfunctional Board,

Then, lack of trust by employees, and see if the directors do not command respect from the employees and employees view them as untrustworthy. Whatever decisions are being taken at the board level will not be implemented in spirit that the employees will not wholeheartedly take those decisions to implement. So, your implementation of those decisions will be hampered or negated. So, this is the lack of trust by employees. Firstly the Board of Directors should earn and command the respect and trust of the organization's employees.

Then, dominating members, some people or some members are very pushy and very dominating in nature. They shout down others; they always put their views and all and ignore others and suppress others and all. These are not good because, for a board of directors, everyone's opinion matters, and cross-fertilization from different domain board members is coming. If it is, it is the duty of the CEO or the Chairman of the Board to get the best out of all, so these dominating members are all a part of a dysfunctional Board.

And non-participants Similarly, some participants may be mute and not participate; they just come there as per the prestige of the post, so they do not contribute. They are more ornamental. So, this also is as bad as dominating members and all. So, they should be brought into the discussion; they should be brought in to encourage them to participate in the debate. These non-participants are some of the signs of a dysfunctional Board. Now, to make this dysfunctional Board into a more effective board, what to do?

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Keys to improve the Board Effectiveness	
Create a climate of trust and candour	<ul style="list-style-type: none"> <li>• Share important information with directors in time for them to be prepared</li> <li>• Rotate board members through small groups and committees so that they spend time meeting key company personnel</li> </ul>
Foster a culture of open dissent	<ul style="list-style-type: none"> <li>• Dissent is not the same thing as disloyalty. Treat dissent as an obligation and every subject is discussable</li> <li>• Probe silent board members for their opinions</li> </ul>
Ensure individual accountability	<ul style="list-style-type: none"> <li>• Give directors the task that require them to inform the rest of the board about strategic and operational issues the company faces</li> </ul>
Evaluate board's performance	<ul style="list-style-type: none"> <li>• Directors confidence in the integrity of the enterprise</li> <li>• Quality of discussions at board meetings</li> <li>• Credibility of reports, use of constructive professional conflicts, level of interpersonal cohesion and degree of knowledge</li> <li>• Go beyond resolutions and resumes. Look at initiative, role and participation in discussions and energy levels</li> </ul>

So, let us see where we will go next and discuss the keys to improving the Board's Effectiveness. How can the effectiveness be enhanced? So, these are ways to create a climate of trust and candour on the Board. That is, you share information for that they share information with the directors in time so that they are prepared for the discussions or prepared for the activities that have been entrusted to them because there is a tendency the sharing information with the non-Executive Directors or some organizations it is restricted and all. So, those things, dynamics take place, so, if so, you should follow this. Then, rotate board members through small groups and committees so that they can spend time meeting the key people in the organizations. I have also referred to it before.

Then, they foster a culture of open dissent; dissent in the board meetings generally is not considered. Dissent should not be looked upon as disloyalty. It is not so. Dissent, you hear others' points of view and try to come to a conclusion after deliberations and take a majority view. So, this dissent should not be suppressed and should be encouraged.

Then, ensure individual accountability, that is, give directors the task they require to inform the rest of the Board about strategic and operational issues the companies may face. So, these are the way the individual accountability of the board members improves.

Then, evaluate the Board's performance, these directors' confidence in the integrity of the enterprise, and different quality of discussions in the board meeting. What are the decisions of the board meeting, the quality, and creativity of reports, the use of constructive professional conflicts, the level of interpersonal cohesion and the degree of knowledge? All these are the evolve board's performance, so that we will discuss this evolution of the Board's performance. We will evaluate further after one or two slides, so hold on that we will not go further on these. We will discuss it more after some time.

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13. Corporate Governance

➤ How to enhance BoD's effectiveness ?

- Dispersed Shareholding
- Active NEDs/Non-Executive Chairman
- Public interest
- Day-to-day interference
- Law-related or routine matters
- 2-day meeting
- Directorship be limited

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So, now further on it, how to enhance BoD's effectiveness? If other, we continue to improve the Board's effectiveness; you should have widely dispersed shareholding. If this means that it will give representations to many sections and thus Board will become more autonomous, Board will become more effective because the if the shareholdings are not dispersed, it is hands up for few people. So, the effectiveness of the Board will not improve. So, this is another important aspect. Also, you should always know that NEDs and non-Executive

Chairman should be very active. They should not be passive or only for ornamental values; it is not that if they are active, the board effectiveness also improves

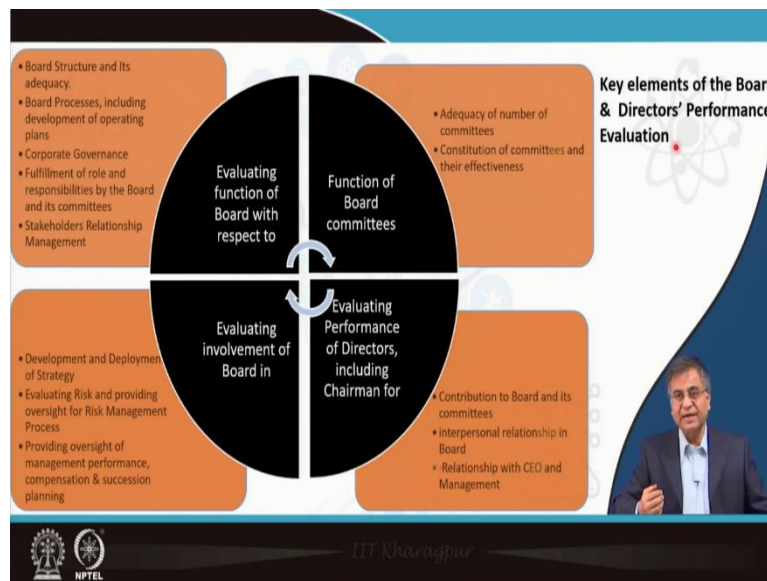
Then, public interest boards, the board Boards of directors, are overarching duties, or the primary duty is to safeguard the public interest and safeguard the shareholders' interest that should they do it as their primary duties.

Then, they should not interfere in the day-to-day activities of the management. That is another way to improve the Board's effectiveness, and they should not spend more time on law-related or routine matters. If they spend more time on what happens, they cannot go for those strategic planning, thinking, decision-making, and growth-oriented plans; they will not have much time. So, they should spend more time on their that instead of this law related or routine matters.

The meetings, board meetings, and some people advocates should be on 2 consecutive days; most of the meetings and people come from the day of the day the different parts of the country. These directors come on the morning flight. Then they are in a hurry to go back on the evening flight. So, they have very limited time to make constructive and meaningful decisions. So, if it is for two consecutive times a day, what happens, is the meeting can go on longer in the night and the night also over dinner, they can discuss, and also in the night they can work out the next day they can deliberate further and take decisions this is more fruitful.

Some people advocate that 2-day consecutive meetings and directorship be limited like there should not be more than if an individual cannot be the director in more than 10 publicly listed companies. So, this has been enshrined in the companies act and SEBI regulations. Further, it has been brought down to 7, which cannot be more than seven companies since April 1, 2020. So, these are some ways to improve the effectiveness of the Board of directors.

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Now, next, I was talking about that just some time back, the Board of Board & Director's Performance Evolution is how you evaluate the key elements of the Board's and director's performance. You go through this diagram; this will explain how to evaluate the functions of the Board with respect to board structures and their adequacy.

What does it mean? It means Board Structure. We have talked about the compositions, how many the Board Members should be there, whether they are adequate or not, and what the compositions should be; 1/3 should be the independent directors the 1/3 of that total strength of the BoDs should be non-Executive Directors.

Then at least 1 woman director and all those are the requirement and adequacy you must evaluate. Then, Board Processes, including developing the operating plan, whether boards are doing it or not. These are the factors for evaluating the functions of the Board.

Then, Corporate Governance, then the fulfilment of the role and responsibilities by the Board and its committees, different committees board has different committees I have talked about it. Now Standing Committee may be the Audit Committee, Remunerations Committee, Risk Committee, Management Committee, Stakeholder Relations Committee and many others.

Then, Stakeholders Relationships Management, so, within these parameters, you find the functions of the Board. The functions of Board committees, as I told you, are different committees, adequacy of a number of committees, all these which are required by your legislations whether they have it or not.

Then, the constitution of the committee and their effectiveness, how many meetings they have done, and what are the outcomes of the panels and what are the implementations of those, and whether their suggestions or recommendation have been implemented or not these ways you can evaluate the functions of Board committees.

Then, evaluate the involvement of the Board. How do you evaluate the involvement of the Board, that is, the development and implementation of strategy, whether a strategy has been implemented, whether it is successful or not, then evaluating Risk and providing oversight of the Risk Management Process?

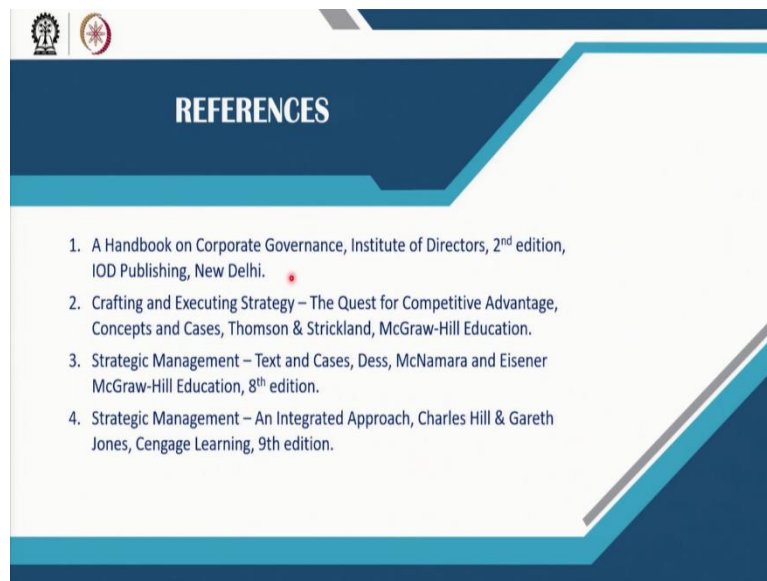
They provide oversight of management performance, compensation, and succession planning, whether they are doing it or not. These are how you can evaluate the involvement of the Board, whether they are carrying out these functions or not.

Then lastly, Evaluate the Performance of the Directors, including the Chairman so, what you do here, and the contribution to Board and its committees by the Board members. Then interpersonal relationships in the Board, whether it is a hostile Board or it is a cooperative Board, this way you can evaluate.

Then, relationships with the CEO and Manager, the Board members' relationships with the management and the CEO. And so this way, you can evaluate the performance of the Directors and Chairman. So, these are some of the key elements of evaluating the performance of the Board and its Directors.



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Now, we will summarize whatever we have discussed in this session. First, in this session, we discussed the dysfunctional Board and suggested ways to improve the Board's effectiveness. We have also discussed performance evaluations of the Board & Directors and their essential elements, and these are the references you should go through. We already have these in the previous lectures, and all the same books and references have been given, so the same references are suggested. You go through it and can enhance your knowledge further. Thank you very much for attending this lecture.