Corporate Governance

Overcoming Problems in Evaluating Boards - Lessons from Indian Exemplars

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The three-year research journey culminating in this dissertation

Dedicated to

Two of my best celebrations in the past three decades -- **Kunal n Sagar**, the most precious 'relationship savings' n investments

And the payoff and joy multipliers they brought in my life -- **Roshni n Anjali**

Abstract

Backdrop: Strengthening *Corporate Governance* has taken centre stage for policymakers over the past three decades to mitigate periodic governance failures. Expert committees worldwide have recommended the practice of Board Evaluations, and governments mandated the same to assure that the *Board of Directors* assumes ultimate responsibility for governance.

Research Questions: Although *Board Evaluations* are legislated as a practice, across most significant economies, including India (mandated in 2015), very few companies have adopted the Practice in the right earnest. Research evidence has suggested that many board evaluations are a perfunctory exercise. However, the available literature does not guide the systemic, social and psychological barriers to conducting board evaluations. This research attempts to uncover (a) Why do the Directors resist Board Evaluations (BE)? And (b) How can Boards facilitate the adoption of effective Board Evaluations (*eBE*)?

Research findings/ Insights: Using grounded inquiry with the *Theories in Use* (TIU) approach, this research establishes the facilitators and inhibitors that affect adopting an *eBE* Practice. I begin by establishing impediments viz. (i) Directors' fears and apprehensions, (ii) Bloated status and self-image, (iii) 'feedback willingness' deficit and (iv) absence of pre-defined Goals. Then, I establish the mediating role of *Chairperson Competence* and the moderating role of *Board Culture* in deploying *eBE*. Finally, I discover an additional antecedent in *Board Capital-e.*

Practitioner/ Policymaker Implications: The findings from this research can help the Promoters/ controlling shareholders, Chairpersons of the Board, and the Boards of Directors to identify the enabling attitudes and supportive mechanisms helpful in institutionalising *eBE*. I also offer insights and recommendations for policymakers.

Theoretical/ Academic Takeaway: This research has evolved and presented the concept of *eBE,* which can emerge as a cornerstone to institutionalise the 'Board Evaluations' practice and act as a scaffolding to improve *corporate governance*. I evolved three other concept definitions in support of BE, viz. *Chairperson Competence*, *Board Culture* and *Board Capital-e* (*BCe*)*.* The propositions offered in this research could lead to the development of theoretical underpinnings beyond the perspectives confined to *agency* theory, aid in the composition of Boards, and enable functional Boardroom dynamics.

Keywords: Corporate Governance, Effective Board Evaluations, Chairperson Competence, Board Culture, Board Composition, Board Capital

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Table of Contents

1 Introduction and Motivation 1

2 Growing Importance of Corp Governance & Board Evaluations 3

2.1 Corporate Governance in perspective 4

2.2 Board of Directors 6

2.3 Trends in Indian Policy 8

2.4 Board Evaluation in perspective 9

3 The reluctance of Boards to embrace Board Evaluations 13

3.1 The underlying idea 13

3.2 Survey of Company Secretaries 13

3.3 Analysis of Annual Reports of Companies 14

3.4 Study Findings 14

4 Appraisals in perspective and Ontological Considerations 16

4.1 Distal Goals: 18

4.2 Proximal Goals: 20

4.3 Peer Feedback 22

4.4 Ontological considerations 23

5 BE research – an opportunity in theory building 23

6 Research Methodology and Design 26

6.1 Research Question 26

6.2 Epistemological considerations 28

6.3 Envisaged conjectures 30

6.4 Research Design 31

7 Research Sample 33

8 Interviews 34

8.1 Interview process 34

8.2 Coding 35

8.3 Analysing Data 36

9 Internal validity 37

9.1 Sample selection 37

9.2 Inquiry Protocol 37

9.3 Coding 37

10 Key Constructs 38

10.1 effective Board Evaluation (*eBE*) 39

10.1.1 Defining Effective Board Evaluation (eBE) 41

11 Findings 43

11.1 Picture of a plurality 43

11.2 Mehcanism and Norms 45

11.2.1 Evaluation Criteria: 45

11.2.2 Evaluation Process and Practices: 47

11.3 Temporal effect – maturing over time 50

11.4 Diffusion of Best practices 52

11.5 Benefits of *eBE* 53

11.6 Causes of resistance/ slow pace of adoption 55

11.6.1 Fears and Apprehensions: 55

11.6.2 Bloated Status & self-image 56

11.6.3 Feedback willingness deficit 57

11.6.4 Absence of pre-defined Goals 57

11.7 Antecedents for *eBE* 58

11.7.1 Regulatory Mandate 58
11.7.2 The Composition of the Board 59
11.8 Chairperson Competence – The mediator to *eBE* 60
11.9 Board Culture – A Moderator for *eBE* 62

12 Discussion 64
12.1 Plurality of Practice 65
12.2 Mechanisms and Norms – as proxies of adaptation of Practice 66
12.3 Temporal effect 67
12.4 Diffusion of Best Practices 68
12.5 Benefits of eBE – *Broaden and Build* 69
12.6 Causes of resistance/ slow pace of adoption 70
12.6.1 Fears and apprehensions 70
12.6.2 Bloated Status and self-image 72
12.6.3 Feedback willingness deficit 73
12.6.4 Absence of pre-defined goals 74
12.7 Board Composition – an additional antecedent 76
12.7.1 Board Capital-e (BCe) defined 78
12.8 Chairperson Competence – The mediator 80
12.8.1 Defining Chairperson Competence 82
12.9 Board Culture – The moderator 83
12.9.1 Defining Board Culture 86

13 Conclusion 87
13.1 Propositions offered 88

14 Takeaway & Implications 89
14.1 For Practitioners 89
14.1.1 Recommendations for Founders/ Controlling shareholders 90
14.1.2 Recommendations for Chairpersons 92
14.1.3 Recommendations for Directors 94
14.2 For Policymakers 97

15 Way forward for Academia/ Researchers 104
15.1 Limitations of Study 105
15.2 Research Agenda Ahead 106

16 Annexures 108
16.1 Global trend – a partial view 108
16.2 India Mandate for Board Evaluations 109
16.3 Interview Protocol – Grounded Inquiry 110
16.4 Interview data – Coding level-1 111
16.5 A sample of the second order codes and theoretical references 112
16.6 Examples of Board Goals 113
16.7 Precursor Research 114
16.7.1 Findings and inferences 114
16.7.2 Company Secretaries Survey – Additional Information 116
16.7.3 Sample set of companies for Annual Reports study 127

17 Exhibits 129
17.1 "Corp Governance" – most cited management literature 129
17.2 … report highlights 131
17.3 Potential Benefits of Board Evaluation 132

18 Bibliography 133

1 Introduction and Motivation

"The time is always right to do right" - Nelson Mandela

Over the past two decades, an unprecedented change in society, geopolitics, and business has brought business corporations to humanity's forefront. With over 70% of top 100 revenue collectors being companies and not the 'nation-states'[1], there has been an increasing focus on corporate governance. For, the corporations today, than ever before, *"determine far more than any other institution, the air we breathe, the quality of the water we drink, even where we live'*[2]. Alongside this, corporate failures attributed to governance failures have occurred regularly, warranting the governments to introduce legislations and mandates to improve corporate governance.

In recent years one such mandate viz. *Board Evaluations* has gained root. Scholars have seen Board Evaluations as a necessary means by which boards can recognise and correct corporate governance problems and add real value to their organisations (Kiel and Nicholson 2005). India mirrored the global trend and introduced a new Company's Act 2013, which included a mandate for the Board Evaluations.[3] Further, SEBI issued guidelines[4] in 2017 for effective assessments. This measure ensures that boards move beyond structural compliance and fulfil their moral obligations(Nishith Desai 2017).

By not prescribing the detailed rules for Board evaluations, India's extant policy and guidelines honour the Board's supremacy to carry out their assessment. Despite the autonomy enjoyed by the Board of Directors, companies are yet to adopt the Board Evaluation practice willingly. The most obvious impediment is that no one can perform them but the Board itself; a proper self-evaluation process need not be a self-serving evaluation (J. A. Conger, Finegold, and Lawler 1998).

Board Evaluations that can play a significant role in providing improved corporate governance are an area of literature gap globally, particularly in India. This research generates insights into what aids Boards in adopting board evaluation practice.

I ascertained the 'State of Board Evaluations in India' as a precursor to this research that helped establish the 'State of Board Evaluations' and led to the research questions in this study.

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[1] https://oxfamblogs.org/fp2p/of-the-worlds-top-100-economic-entities-29-are-states-71-are-corporates/

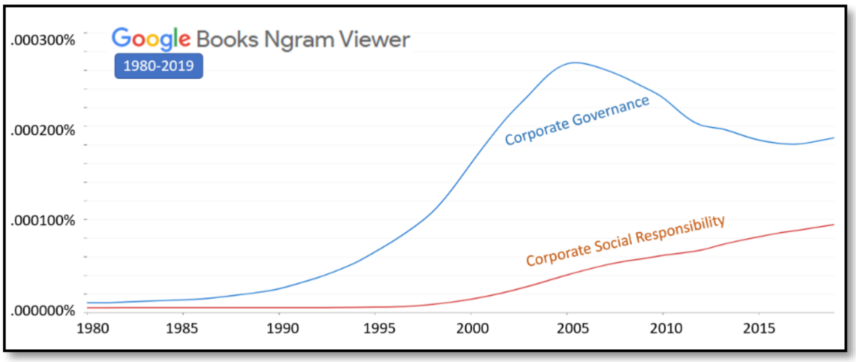
[2] Sir Adrian Cadbury quoted Monks and Minnows' seminal book Power and Accountability(1991) in what is known as the foremost expert committee, which he chaired (Cadbury, 1999).

[3] Under the provisions of Sections 134(3), 178(2) and Schedule IV-II(2) of the Companies Act, 2013

[4] SEBI (Securities and Exchange Board of India) is equivalent to SEC in USA. Its regulation 17 (10) of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (Listing Regulations)

2 Growing Importance of Corp Governance & Board Evaluations

"We are moving from a chain of command to a web of connection, from competition to collaboration, from markets to networks and stockholders to stakeholders, and greed to green." - Anodea Judith[5]



The Google Books Ngram view (pic inset) is a testimony to *Corporate Governance* being a developing field of study. The contours of this paradigm are yet to evolve into a unified perspective accepted by the scientific community. Arguably, the understanding of governance suffers from two problems (i) the tendency to overgeneralise across companies and (ii) the tendency to refer to central concepts or terminology without first defining them (Larcker 2019).

A study of available literature reveals three significant limitations.

1. A Scopus search across all the FT50 + PJ7 journals[6] revealed only 12 papers with the key phrase "Board Evaluations," ten are in CGIR, and none focused on India.
2. Though the field claims to draw from multiple disciplines like Finance, Law, Management, Philosophy, and Sociology, the lexicon of *Corporate Governance* has primarily evolved through the lens of Finance and Economics (Exhibit 17.1).
3. Despite considerable international literature on *corporate governance,* we do not find significant research/ findings addressing India's unique socio-political realities.

[5] American author, therapist, and public speaker on the chakra system, body mind integration somatic therapy and yoga.

[6] The literature search was carried out in October 2020 in pursuit of this practicum… Besides FT50, the Practitioner Journals include -- Harvard Business Review, MIT Sloan Management Review, California Management Review, McKinsey Quarterly, Long Range Planning, Academy of Management Perspectives and MISQ executive

2.1 Corporate Governance in perspective

"Organisations need to practice qualitative corporate governance rather than quantitative governance, thereby ensuring it is properly run."[7]

As stated above, Corporate Governance as a field started evolving post-1980s. Scholars have attributed the origins to Berle and Means' classic (1932) *'The Modern Corporation and Private Property.'* The pioneering book, written when the business world embraced the corporate system, highlighted the separation of ownership & control and the consequential conflict of interest between managers and owners. They highlighted two economic system trends, (i) increasing concentration of wealth and (ii) expanding separation between ownership & control in public companies, and highlighted these being incompatible with the spirit of the free enterprise system. (Yazdipour 2019)

The framework of corporate governance into a neat category has been compared with the ugly sisters' attempts to squeeze their unshapely feet into Cinderella's shoes (Solomon 2020); a review of definitions of the term 'corporate governance' over the years provides us with a sense that the field is still evolving. From being defined as "the ways in which suppliers of finance to corporations assure themselves of getting a return on their investment" (Shleifer and Vishny 1997) to "control the internal and external entrenchment practices of executives through the internal and external control mechanism which either align the interest of executives with the boards or monitor them directly" (Zhu 2009) to now being perceived as "the system of checks and balances, both internal and external to companies, which ensures that companies discharge their accountability to all their stakeholders and act in a socially responsible way in all areas of their business activity" (Solomon 2020). Thus, good corporate governance is seen as central to many an ailment the business world and society face today. As revealed in *'the 20th century might be viewed as the age of management, the early 21st century is predicted to be more focused on governance... governance has always required an examination of underlying purpose and legitimacy'*[8].

The most acknowledged contribution to the field has been *Agency Theory*. Shleifer et al. wrote, "Our perspective on corporate governance is a straightforward agency perspective, sometimes referred to as the separation of ownership and control." Thus, much of the legislative action lies in the intention to resolve the *agency problem*. It is a serious problem, given plentiful and well-documented opportunities for managers to abscond with financiers' funds or squander them on pet projects (Shleifer and Vishny 1997). The multiple agency conflicts have been vividly captured by Zhu (2009) as Triple Principal-Agent Relationships (see pic).

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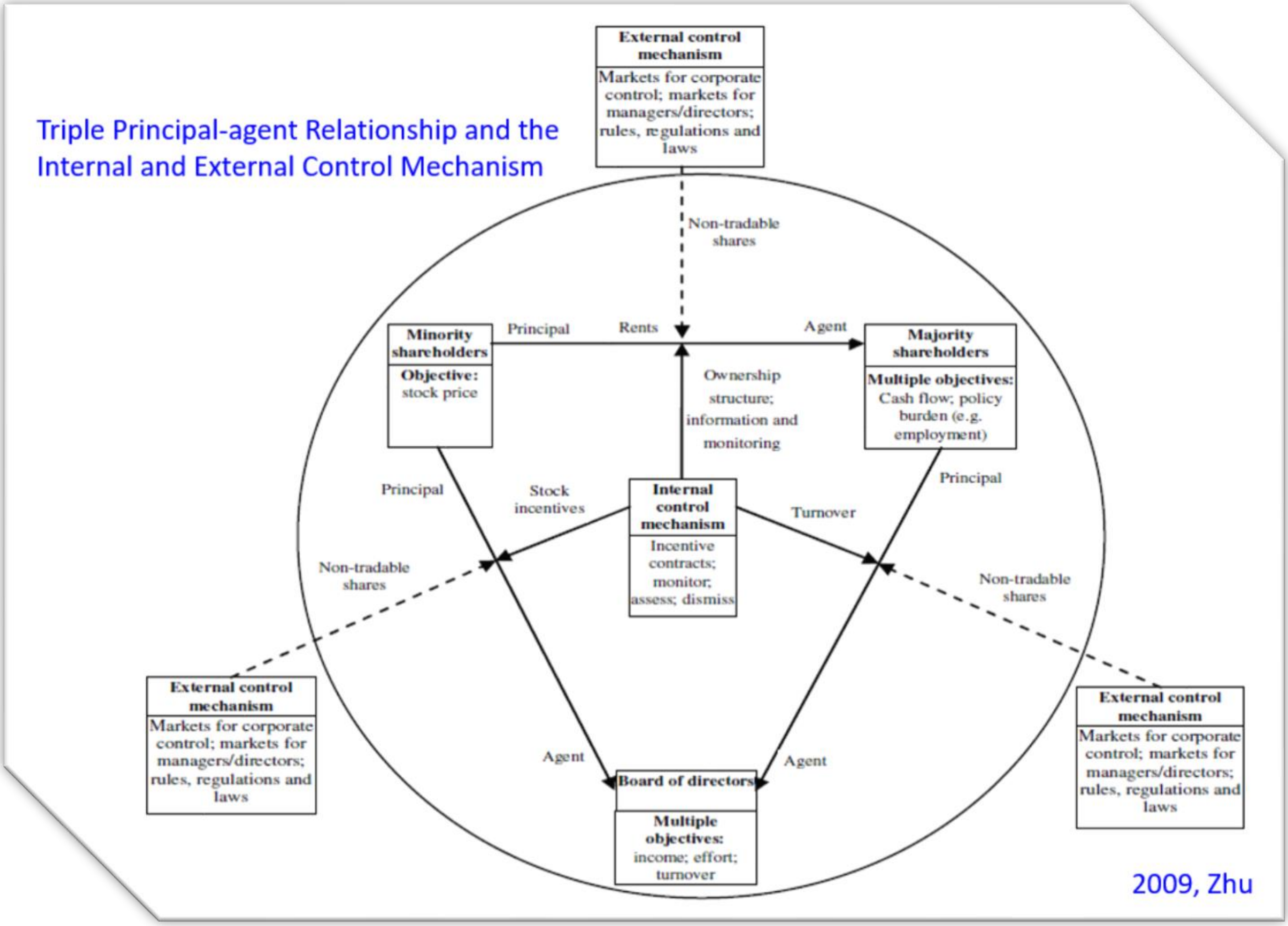
[7] Mervyn King, Chair of the first official committee on corporate governance in South Africa

[8] James McRitchie, 12/2020 -- https://www.corpgov.net/library/corporate-governance-defined/



The response to these principal-agent conflicts led to checks and balances through corporate governance legislation around the world. The bulk of legislation is rule-based, particularly in Anglo-American countries. Although some countries, most notably UK ('comply or explain') and Singapore, have embraced principle-based legislation.

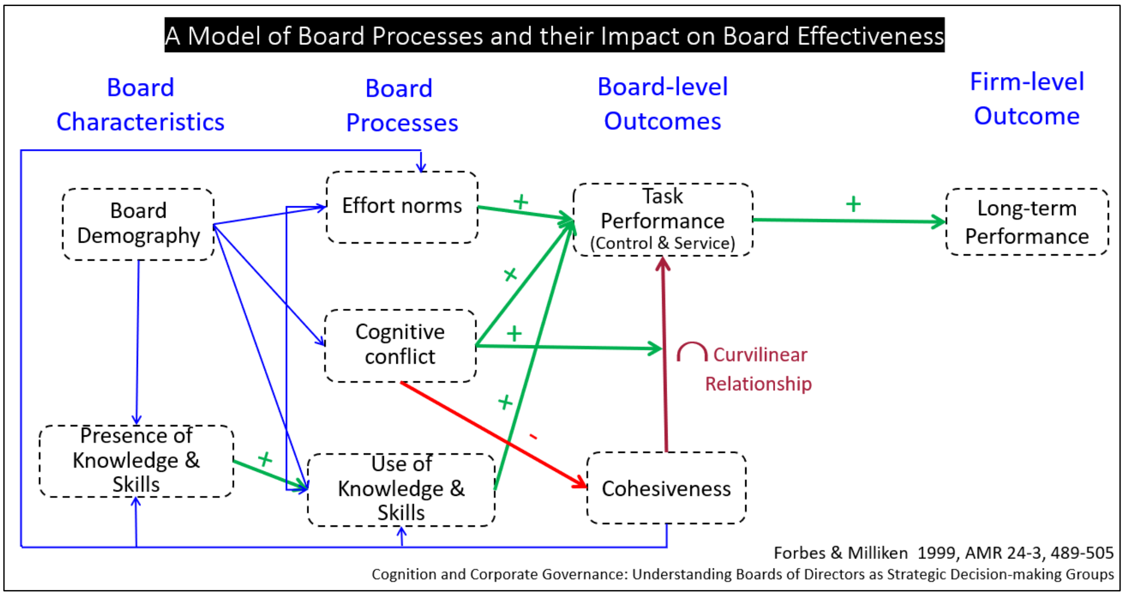
2.2 Board of Directors

"Be the change that you wish to see in the world." – Gandhi

In the early era, an image of Boards of Directors was often perceived as 'ornaments on a corporate Christmas tree' (Bryne, 2002) or 'an impotent ceremonial and legal fiction' (Drucker 1974). However, over the years, the role of the Board of Directors has become more complex and increasingly come under scrutiny. Passive boards often came under attack, first by corporate raiders in the USA of 1980s, then the boards of directors were scrutinised by institutional investors and other market parties (Berghe and Levrau 2004). *"Boards of directors are an economic institution that, in theory, helps to solve the agency problems inherent in managing an organisation. Although boards satisfy numerous regulatory requirements, their economic function is determined by the organisational problems they help to address"* (Hermalin and Weisbach 2001).

After Cadbury's first Report in 1992, corporate compliance, performance pressures, and visibility levels on boards of directors have escalated (Long 2006). Since then, Boards have undergone a metamorphosis. They fulfil a vital role, covering both an outward-looking function of accountability to the stakeholders & strategy formulation; and an inward-looking function of monitoring, control, and setting policy (Bridge and Band 2011).

They are accountable for the corporate governance in organisations and, given the increasing size, spread, and impact of organisations, carry the responsibility for the wellbeing of society/ humankind. Their competence, integrity, and functioning mechanisms shape the governance DNA of organisations. Forbes and Milliken (1999) have offered a framework that can help one appreciate how



the 'Board of Directors' contribute to firm performance

, implying that the Boards serve a function more important than merely statutory compliance or countervailing force to agency problems. They are an endogenously determined institution to an organisational design problem and a market solution to contracting problems inside most organisations (Hermalin and Weisbach 2001) to ameliorate agency problems.

The extant literature has established that the Boards play three roles (Johnson, Daily, and Ellstrand 1996) and (McNulty et al. 2011)

- Control role – an oversight on the executive Management, hiring/ firing them, and their remuneration decisions
- Service role – advising CEO and top managers on administrative & managerial issues, including strategy input and policy making through the sub-committees of the Board
- Being a Resource – facilitate resource mobilisation for the firm's success, be a resource bridging relationships with stakeholders in the environment, and offer expertise to augment the firm's capability

2.3 Trends in Indian Policy

India's expanding economy, mainly post-liberalisation, necessitated access to FDI. Consequently increased presence of institutional investors (both domestic and foreign) and the desire of Indian companies to access global capital markets spurred corporate governance reforms (Afsharipour 2009). Investor engagement continues to increase, with investors from both the debt and equity sides increasing their interaction with companies. Both the equity markets and the credit markets are affected by corporate governance practices. Therefore, an assessment of corporate governance can play a pivotal role in strengthening the Indian economy. Although global investors are far ahead on this curve, Indian institutional investors have begun to see the benefits of sustainability-based investing; ESG funds are being launched and forecasted to impact the Indian market (IFC 2019). Therefore, it is not surprising that several facets of Indian corporate governance laws and norms – structural and legislative-have been modelled following the Anglo-American Practice.

2.4 Board Evaluation in perspective

"True intuitive expertise is learned from prolonged experience with good feedback on mistakes." – Daniel Kahneman

A well-functioning board provides a clear competitive advantage to a Company. It helps managers make better decisions, avoids tunnel vision, and builds connections with government, society, & other stakeholders (Fenwick and Vermeulen 2018). Ingley and Van der Walt (2002) have cited Herman and Renz, who found that a Board's self-evaluation represents committed attention to board performance.

Across the academic, policymaking, and practitioner world, higher standards of corporate governance, better board performance, and increased professionalism among directors have been the sought-after virtues. In the aftermath of every major corporate collapse, mainly since the early 2000s (e.g., Enron, WorldCom, & others in the US, Parmalat in Italy, HIH in Australia, and Ahold in the Netherlands), concerns about the boardroom behaviour and the relationships between directors brought to attention the performance of Boards. In turn, leading to a spread of Board Evaluation policy from recommendations by director associations, stock exchanges stipulations, codes of best Practice (B. D. Nordberg and Booth 2019), and legislative mandates (e.g., Annexure 16.1).

The first move toward institutionalisation came from the Toronto Stock Exchange, which in 1994 sought self-assessments by listed company boards and disclosures about this (B. D. Nordberg and Booth 2019). The Canadian code insisted that "Every Board of directors will have in place some mechanism for, at least annually, assessing the performance of the CEO. Good governance requires the Board to also have in place a mechanism for assessing its own effectiveness as a board and for assessing the contribution of individual directors''. The Practice is seen to assure stakeholders about the attention paid to governance matters (Fenwick and Vermeulen 2018) (Bridge and Band 2011).

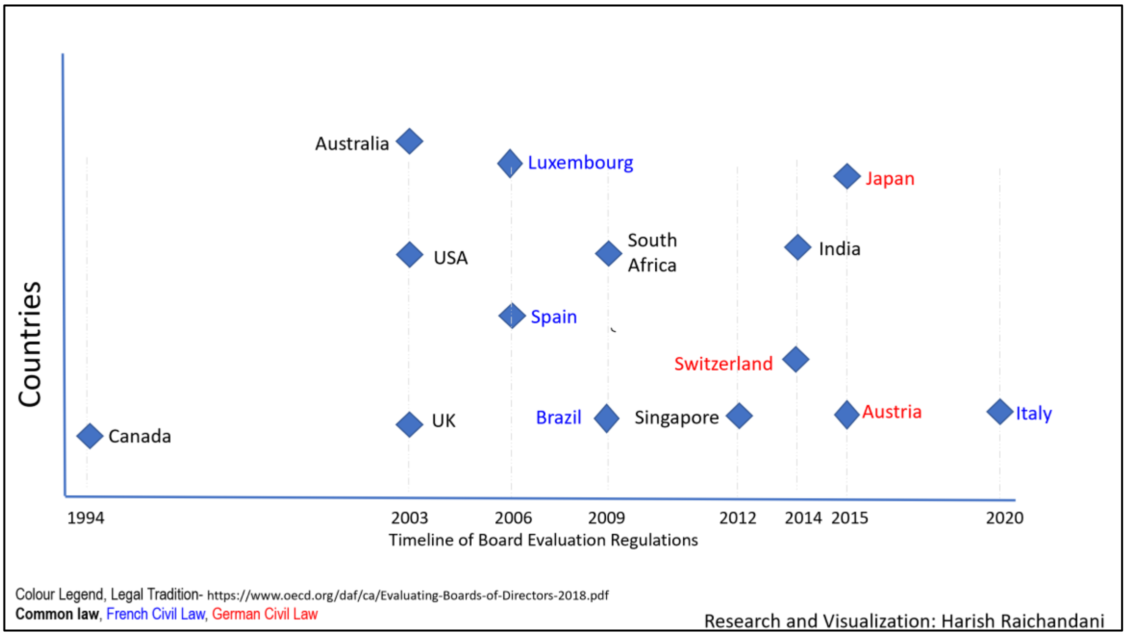
Many scholars have elaborated on the benefits of Board Evaluation. It helps identify the areas of improvement, delineate the responsibility of the Board vs the Executive, and enhance accountability (Kazanjian 2000). The potential benefits to individual directors, the Board, and the company accrue on multiple dimensions (Exhibit 17.3), such as Leadership, Teamwork, Decision-making, Accountability etc. (Kiel and Nicholson 2005).

For the companies sensitive to the lifecycle influences or facing stagnation or expansion, the evaluation process can equip boards to oversee growth amidst dynamic markets and examine their flexibility, diversity and fresh thinking in the boardroom (Long 2006).

Many a company has taken to Board Evaluations as a transformational exercise. Through this practice, the boards of Medtronic, Service Corporation International, Bank of Montreal, and Best Western have converted themselves into high-performance teams, rethinking members' roles and working relationships (Nadler 2004).

For instance, the Board of Bank of Montreal reaped the benefits of becoming a "highly participatory board where all issues are actively debated" (Kazanjian 2000), and PepsiCo changed their processes for reviewing strategy with their boards (Sonnenfeld 2002). However, I did not find any empirical studies proving the benefits. This research attempted to cover a little ground in this regard.

Over the years, countries across all three legal traditions, viz. Common-Law, French Civil Law, and German Civil Law have established the system of Board Evaluations as a mechanism to uphold the quality of Corporate Governance (Jurdant and Tyler 2018).



It has been seen to add immense value (Jurdant and Tyler, 2018), and the public policy in many countries (including India) has been striving to encourage boards of directors to undertake regular evaluations (B. D. Nordberg and Booth 2019). An OECD study of corporate Governance across 20 countries highlights the evolving policy and Practice of Board Evaluations; barring China, all the other counties have introduced policies and legislation (Jurdant and Tyler, 2018). The report argues that the *"Countries that explicitly introduce board evaluation provisions in company laws... are more successful at increasing the number of boards engaging in formal board evaluation processes... An empirical analysis ...indicate that board assessments, in countries with general provisions, are falling short of their promise of genuinely enhancing board effectiveness."*

Notwithstanding these proclamations, several studies have investigated how boards conduct evaluations. Despite the emphasis provided in the corporate governance guidelines and codes of best practice worldwide, Boards generally have been slow to adopt Board Evaluations; in fact, the Boards have openly or covertly resisted Board Evaluations (Ingley and Van der Walt 2002).

"In 2012, JPMorgan Chase had no directors with risk expertise on the board's risk committee—a deficiency that was corrected only after Bruno Iksil, the 'London Whale', caused $6 billion in trading losses through what JPM's CEO, Jamie Dimon, called a 'Risk 101 mistake' " (Subramanian 2015). The purpose of Board Evaluations is to mitigate incidents such as these by ensuring that the Boards are staffed and led appropriately; effectively discharging their duties, and deploy reliable processes for oversight in areas such as strategy, risk management, financial reporting, performance measurement, compensation, and succession planning (Taylor, Larcker, and Tayan 2017).

Just as NYSE stipulated the boards of publicly traded corporations to "conduct a self-evaluation at least annually to determine whether the Board and its committees are functioning effectively," the Practice of performance evaluation of Boards was mandated in India. India legislated the Board Evaluation mechanism under the Companies Act 2013. SEBI (Listing Obligations and Disclosure Requirements) mandated periodic performance evaluation of the directors effective Dec'2015 (NSE, 2018). Although it is a mandate, unlike several other provisions that connote strict compliance rules, this provision is a principle-centred guideline, exhorting the boards to adopt a reasonable practice.

This mandate (Annexure 16.2) invokes companies to uphold the spirit of Resource dependency, Institutional, Stewardship & Upper echelons theories rather than the tight Agency theory bounded rules visible in other corporate governance facets. For instance, the guidance notes to companies to educate the boards on the evaluation process (SEBI 2017) lays down the expectations for the evaluation of competencies & diversity of Directors. In turn, they acknowledge the resource dependence in dealing with myriad contingencies represented by the 'board capital' (Christopher, 2010). Section 178(2) of the Company's Act 2013 under which the NRC is stipulated to carry out the Board Evaluation, thereby honouring the Institutional theory, recognising the resilient aspects of social structures by which the structures, schemas, rules, norms, and routines get established (Scott 2004). The SEBI Guidance Note on Board Evaluation (2017) reminds the Board to devote time to strategic issues to guide Management, thereby recognising the stewardship role of the Board 'in support of the CEO's decision-making and provide advice and counsel' (Boyd, Haynes and Zona, 2011). In addition to guiding Boards' to play a role in *Strategy Choices*, the SEBI expects the Board Evaluations to undertake the evaluation of *Risks*, recognising the pivotal role of Boards in shaping organisational outcomes (Carpenter, Geletkancz, and Sanders 2004) – recognising the applicability of Upper Echelons theory.

Not just the SEBI, but one of India's most admired CEOs, Uday Kotak, Chairman of the last committee on corporate governance, opined that 'the concept of board evaluation is at a nascent stage in India' (Kotak Uday 2017).

The necessity, importance, and impact of Board Evaluations have been succinctly summed up in the guiding principle by IiAS "Board evaluation is the first step towards establishing a measure of performance and setting accountability. It can be used to review the collective expertise of the directors and identify skill gaps based on changes in strategy or business functions. Boards which embrace robust evaluation mechanisms are likely to be more agile, responsive, and drive towards continual self-improvement" (IiAS-IFC 2016).

3 The reluctance of Boards to embrace Board Evaluations

"Where there is power, there is resistance." — Michel Foucault

As a precursor to this dissertation, I researched to ascertain the current 'State of Board Evaluations in India.' Findings from the precursor research during 2020-21 are captured to set the context of this research.

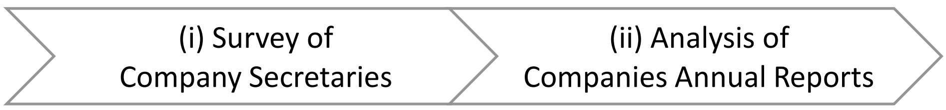
3.1 The underlying idea

Thus far, every time a corporate mishap (malfeasance or market bust like the financial crisis in 2008) occurred, the governments/ stock exchanges/ regulatory bodies constituted committees of experts. Their reports have led to the evolution of corporate governance legislation, policies, norms, and rules worldwide. A study of salient recommendations of these committees reveals the primacy of structural elements such as – board composition (insider vs. outsider director proportion, CEO-Chairman duality), characteristics (size, diversity, number of independent directors), and functioning mechanisms (number & frequency of board meetings, formation & role committees board committees).

The focus of precursor research was to ascertain the *current state of Board Evaluation practice in India.* The study entailed a two-step process

(i) A survey of Company Secretaries and

(ii) An analysis of a sample of BSE500 companies' published reports.



3.2 Survey of Company Secretaries

The choice of the Company Secretaries as the respondents was driven by (i) they are custodians of all the information about the Board functioning and (ii) that of companies' Corporate Governance. However, they are not the board members. The questionnaire-based survey provided them anonymity for their views/ company facts, an aspect of paramount importance to them.

The survey design leveraged the views of Independent Directors[9], my professional experience, and the dissertation guide's insights & experience from serving the Boards. The idea was to ascertain the extent of adoption of Board Evaluation and whether companies were meeting the spirit conveyed by the Company's Act 2013 and SEBI guidance note.

[9] July-Sep 2019 informal interactions with 12 Directors

Before approval by the IRB[10], my Guide reviewed the Questionnaire (Annexure 16.3) design after pilot testing. A mix of Likert scale questions, multiple qualitative choices (with the option to express free will), and open-ended were included to make the survey comprehensive & intuitive. It required about 10 minutes for each respondent.

3.3 Analysis of Annual Reports of Companies

A random sample of 20 top listed companies (Annexure 16.5.3) of the Bombay Stock Exchange (BSE-500) was drawn, and their 2019-20 Annual Reports' Corporate Governance section and Directors Reports, where referenced, were analysed. The analysis included company demographics and the Board characteristics (as the size, the composition of the Board, management type, CEO duality, committees, and the meetings). The critical elements studied included whether the Board Evaluation was carried out, accountability for the same, directors' evaluation criteria, and the mechanism followed. I referenced several Annual Reports (outside the sample set) to develop the interpretation logic and coding, including the acknowledged leaders in Corporate Governance. NVivo software helped to ascertain and convert text interpretations into measures.

3.4 Study Findings

The key study findings are summarised under (Annexure 16.5 more details)

1) Stipulation of law was the key driver and the antecedent for Board Evaluations' Practice. 87% surveyed confirmed that the board evaluation was initiated due to a mandate by the Companies Act 2013. This finding corroborates a survey by NSE and IiAS (NSE, 2018) where 92% of companies initiated BE due to the changes in the law.

2) The extent of adherence to the Practice of Board Evaluations appears to be about 77% for private sector companies. Surprisingly the listed Govt owned/ Public sector companies have not adopted the practice, even though the minority shareholders' interests and agency conflicts warranted the appointment of non-executive directors on their Boards.

Board Evaluation Practice

		No of Companies	Implementing BE		
			Yes	%	Remarks
Survey		16	15	94%	
Annual Reports	PSU	6	0	0%	
	Pvt sector	14	8	57%	3 did not implement BE; for other 3 it's not clear... only one of these is prof managed
Total		36	23	64%	Private sector -- 77%

[10] IRB is the Institutional Review Board at Indian School of Business

3) The textual analysis of narratives in the Annual Reports indicated that the degree of seriousness accorded to Board Evaluations was low. The data revealed anecdotal language and scant details on substantive matters leading to a conclusion that the current state of Board Evaluations in India was a tick-in-box exercise for companies. This study corroborated with Uday Kotak's observation that 'Board Evaluation adoption is at a nascent stage in Industry'. However, the narratives for the successive years of sample companies indicated that the Practice is gaining traction beyond the tick-mark reporting. The early adopters reported some payoffs for Board functioning, demonstrating the usefulness of Board Evaluations.

4) The structural elements of Corporate Governance, such as board composition, CEO duality, board characteristics & size, and the effort by the Board (e.g., attendance and the number of meetings), did not have a bearing on the adoption of this Practice.

5) Professionally managed companies (r=0.58) with Boards governed through committees (r=0.49) and with better functioning mechanisms like planned meetings (r=0.58) were more likely to emerge as early adopters of the Board Evaluation Practice

6) The survey voices two significant views of the Company Secretaries (i) Independent third party must undertake Board Evaluations and (ii) A need for more explicit rules on Board Evaluations. These, elicited in response to their recommendations for Managements and Policymakers, can be inferred as a lack of seriousness on the part of Directors to adopt Board Evaluations Practice.

7) The survey revealed that the robust Board Evaluation Practice led to positive payoffs for companies, viz., better board performance and actionable feedback.

4 Appraisals in perspective and Ontological Considerations

"The most basic problem is that performance appraisals don't always accurately assess performance." - Edwards Deming

"A substantial body of research and literature argues vigorously that performance appraisal can increase motivation, foster productivity, improve communication, encourage growth and development" (C O Longenecker and Gioia 1988). The paradoxical truth of organisations is -- the higher one rises in an organisation, the lesser the performance review and feedback they receive (Clinton O. Longenecker and Gioia 1992) and (McArthur and Favero Phillips 1994). Understandably, the feedback requirement gap is the highest at the Boardroom level. Therefore, it is unsurprising that corporate governance expert committees worldwide and legislation in many countries have mandated the Board evaluations as an essential process for improving corporate governance.

The managerial and executive appraisal mechanisms have established some underpinnings that should apply to board evaluations. In terms of organisational hierarchy, Boards represent the uppermost echelon. They perform the most uncertain, unstructured, ill-defined work, which necessitates informative feedback about their performance. The appraisal of performance and feedback help cope with work demands (Clinton O. Longenecker and Gioia 1992) in such situations. The importance of some assessments for the Boardroom occupants becomes even higher due to their highly contextual role. In defining the performance as 'task' versus 'contextual,' the latter requires OCB - organisational citizenship behaviour (Organ, 1997 cited by (Latham and Mann 2006) much needed at the Board level.

Researchers have settled that the attribution theory[11] is not an applicable theoretical framework for appraisal research; instead, they draw upon goal setting and organisational justice theories[12] (Latham and Mann 2006). The literature has established the dominance of goal setting criterion as the fulcrum of performance management and hence, that of performance evaluation systems. From the literature in social and industrial psychology, one sees three

[11] "Attribution theory deals with how the social perceiver uses information to arrive at causal explanations for events. It examines what information is gathered and how it is combined to form a causal judgment". It is concerned with how ordinary people explain the causes of behaviour and events. For example, is someone angry because they are bad-tempered or because something bad happened? [2012, Dr Saul McLeod in Simply Psychology]
There is no single "theory of attribution" but rather a number of differing attribution perspectives. The majority of these perspectives can be classified as self or other attribution theories. Weiner's theory of achievement motivation (1986) is an example of a self-attribution theory. This theory is primarily concerned with how individuals explain their own successes and failures and consequences of those explanations. [1995, Mark Martinko, Attribution Theory: An Organizational Perspective, pub - Routledge]

[12] Organizational justice refers to employees' perceptions of fairness in the workplace [2007 McCardle]. In the context of performance management system, wherein a key purpose of PMS is to retain the talents within an organization and growth of the organization [2005 Jenkins] there are three aspects of this theory viz., distributive justice (perceived fairness of the outcomes of appraisal process such as pay increases/ promotions), procedural justice (fairness of the procedures used e.g. in awarding someone a superior rating), and interactional justice (fairness of the interpersonal treatment and communication usually by authorities)

critical elements play a significant role in effective performance Evaluations. The elements being (i) superordinate goal, (ii) SMART goal-setting, and (iii) feedback

To understand this in perspective, one must note 'Goal' as a mental representation of the desired end state that influences the subsequent motivation and performance (Höchli, Brügger, and Messner, 2018). The superordinate goals represent the highest level of goal hierarchy, i.e., an idealised conceptualization of one's self, relationships, or society (Boekaerts cited by Höchli, Brügger, and Messner, 2018). Superordinate goals are closely aligned to values. In the goals hierarchy, superordinate goals are cascaded into intermediate and the lowest order subordinate goals.

The phenomena of 'Appraisals' and 'Goals' are at the heart of any organizational, team, or individual evaluation, and the Boards Evaluations (BE) are no exception.

Therefore, before we consider the research opportunities in BE, it would be essential to draw attention to the Appraisal literature and the embedded pointers from there in the ontological[13] considerations. I break down the goal hierarchy into two levels, viz., *Distal* & *Proximal*, and elaborate on these along with peer feedback

[13] Ontology - to use Gioia(2021) expression 'our assumptions about the nature of the phenomena we study'

4.1 Distal Goals:

"The great danger for most of us lies not in setting our aim too high and falling short, but in setting our aim too low and achieving our mark." –Michelangelo

The centrality of superordinate goals for Board Evaluation becomes a foregone conclusion the moment one takes cognisance of the work undertaken by the Board of Directors and the expected results. Firstly, triggered by the unprecedented pace of technology innovation, global competition, shifts in the consumer patterns, and shareholder activism, a corporate Board's permanent companions are uncertainty, low munificence, complexity and disruption (Morais, Kakabadse, and Kakabadse 2018). Secondly, success in such a role hinges on long-term goal pursuits. The dominant goal-setting theory literature has focused on SMART goals, which are subordinate to superordinate objectives. Given the apex status and responsibility bestowed upon the Boards of directors and the long-term challenges they face, the superordinate goals would be a pre-requisite. They can provide a sense of direction, contain information about the value of the plan, place subordinate goals into a broader context, and fuel a motivation to work toward their goal (Höchli, Brügger, and Messner 2018) for the Board of Directors.

An essential element of a superordinate goal is that it captures the ''heart'' and appeals to Director's emotions, thereby giving them a cause they can rally around; thus establishing an overarching goal to capture the imagination and galvanise them to take action (Latham 2003). Board Evaluations not only help review the performance for the past period (a year in the annual evaluation exercise) but also provide an opportunity for the Board members to express their wishes for the future. The latter part is akin to forming the bottom-up goals within the Boardroom instead of those seen as top-down (e.g., goals directed by the Chairperson or the CEO). This is vital because "Bottom-up goals are frequently more powerful than those that are primarily top-down" (Latham, 2003); for, it is an expression by the Board members themselves. The collective voice of the Board members appeals to their emotions, thereby acting as a superordinate goal and capturing the "heart" of the Board of Directors.

For example - upon being anointed Microsoft's third CEO in Feb'2014, in an early initiative, Satya Nadella held a day-long reflection with Microsoft's apex decision-making body, i.e., the senior leadership team (SLT). The idea was similar to the bottom-up listening with Microsoft's SLT. SLT reviews, brainstorms, and wrestles with big opportunities and difficult decisions like any other corporate Board. They spent the day deepening their understanding of one another. The idea was to connect individual personal philosophies to their roles as leaders of one of the largest organisations in the world. Satya Nadella said, *"Our roles on the SLT started to change that day. Each leader was no longer solely employed by Microsoft; they had tapped into a higher calling—to employ Microsoft in pursuit of their personal passions to empower others. It was an emotional and exhausting day, but it set a new tone and put in motion a more unified leadership team. At the end of the day, we all came to the same stark realisation:*

No one leader, no one group, and no one CEO would be the hero of Microsoft's renewal. If there was to be a renewal, it would take all of us and all parts of each of us. Cultural transformation would be slow and trying before it would be rewarding." (Nadella, 2017).

4.2 Proximal Goals:

"Setting goals is the first step to accomplishing anything meaningful."

The appraisal literature has established that an empty slogan (e.g., ''To be the employer of choice'') as a superordinate goal may temporarily raise expectations only to have them dashed and become a source of cynicism. The antidote for this cynicism is goal setting (Latham 2003) – a principle that would apply to the company Boards too. A distal goal of a Board must get cascaded into proximal goals.

> For example – Housing Development Finance Corporation (HDFC), a company identified as a corporate governance leader (IFC 2019), stated Board's distal goal as "*The board remains committed to upholding the highest standards of governance.*" The proximal goals to achieve the distal purpose were – (i) optimise long-term value by providing the management guidance and strategic direction, (ii) oversee the strategic direction, (iii) review corporate performance, (iv) assess the adequacy of risk management and mitigation measures, (v) evaluate internal financial controls, (vi) authorise and monitor strategic investments, (vii) ensure regulatory compliance, and (viii) safeguard interests of all stakeholders. Marico, another company identified as a leader, sees its Board objectives as "responsibilities of your Board thus include setting the company's strategic aims, providing the leadership to put them into effect, supervising the management of the Company and reporting to shareholders on their stewardship."
>
> These examples stand out; most other company Boards stop at motherhood statements. For instance, Marico's competitor Dabur's "good governance practices form part of business strategy which includes, inter alia, focus on long term value creation and protecting stakeholders interests by applying proper care, skill and diligence to business decisions. Its initiatives towards adhering to highest standards of governance include self-governance, professionalisation of the Board, fair and transparent processes and reporting systems and going beyond the mandated Corporate Governance requirements of SEBI." HDFC's competitor ICICI Home Finance, "The Company's corporate governance philosophy encompasses regulatory and legal requirements, which aims at a high level of business ethics, effective supervision, and enhancement of value for all stakeholders."

More than 500 laboratory and field experiments in psychology have shown that 'urging people to do their best' compared with 'those setting a SMART goal' pales in performance (Latham 2003). SMART[14] refers to well-articulated explicit goals. Often the SMART has come to be misconstrued as proximal goals, and distal goals have been labelled as 'abstract'. Concreteness or vagueness of goals is not a function of time (near term or distant future) but that of clarity, conviction, and articulation. To successfully address the broad, long-term challenges - one needs to overcome obstacles such as sustaining motivation

[14] SMART acronym has come to stay with practitioners and academics as clearly identifiable and actionable goals. It stands for Specific, Measurable, Attainable, Relevant, and Time-bound; many have used the term Agreeable in place of attainable to indicate agreement with the controlling stakeholder (e.g, Supervisor/ Manager)

over the long term, resisting the pull of competing goals, compensation effects, and being resilient in the face of setbacks (Rothman et al. cited by Höchli, Brügger, and Messner, 2018).

Therefore, a Board's explicit goals would form the foremost requirement for companies embracing the Board Evaluation process. It is established in the literature that specific, challenging goals in organisational settings lead to higher performance than merely urging people to do their best (E. A. Locke and Latham 2002). The examples cited above are a testimony to this principle.

Research in social and industrial psychology has established that in addition to setting a specific conscious goal, as outlined above, priming a goal in the subconscious also enhances performance (Stajkovic, Locke, and Blair 2006). The Board evaluations aid in priming has been amply demonstrated in my experience as a consultant, having supported over 35 Board Evaluations over the past four years. The experience has shown that Board evaluations help in enhancing Board performance, contributing to all the four mechanisms cited by (E. A. Locke and Latham 2002) viz. (i) they serve as a directive function, (ii) serve as an energising function, (iii) affect persistence, and (iv) lead to arousal, discovery & use of task-relevant knowledge and strategies. Further, these authors (quoting Seijts and Latham, 2000) argue that goal commitment questionnaires have high reliability and validity; it is not surprising to see the best-governed companies deploy questionnaires with commitment-related questions for the BE.

A Board pursuing challenging goals requires a high commitment of Directors, not just their effort. *"Goals are central to current treatments of work motivation, and goal commitment is a necessary condition for difficult goals to result in higher task performance"* (Klein et al. 1999). The BE, carried out on the bedrock of defined goals, augments the directors' commitment to making a vital contribution to companies' long-term performance. Further, it institutionalises the Board's role, upholding the true spirit of corporate governance.

4.3 Peer Feedback

"Feedback is the breakfast of champions." - Ken Blanchard

Performance literature has taught us that feedback helps organisational members achieve their performance goals. It tends to encourage better performance and help determine the nature of the adjustments required to improve (Lunenburg 2011) through improved communication, increased motivation, and higher productivity (McArthur and Favero Phillips 1994). Locke and Latham (2002) have cited Bandura & Cervone (1983), Becker (1978) Erez (1977), and Strang, Lawrence, & Fowler (1978) to establish the moderating role of feedback.

In recent years, there has been a shift towards agile systems. In the process, the focus is shifting to delivering regular feedback throughout the year so that teams can become nimbler, course-correct mistakes, improve performance, and learn through iteration (Cappelli and Tavis 2018).

A 'Board of Directors' carries out ambiguous yet crucial work for shaping a company's destiny. Informative feedback can help them cope with the unfolding demands and improve the Board's collective performance. Unlike a supervisor-led appraisal and feedback, the operating mechanism is at the peer level. Greguras and Robie (1998) have found that peers are the most reliable source of performance information (cited by Latham and Mann, 2006). A few laboratory experiments have demonstrated that peer appraisals contributed to openness in communication, interpersonal effectiveness, cohesion, task satisfaction, and group satisfaction, which can significantly alter the Boardroom dynamics. Further, citing Zazanis et al. (2001), Latham and Mann (2006) have highlighted that peers place considerably more importance on interpersonal performance and motivation than task performance. Finally, peers are seen as the optimal source for assessments of a person's OCB (Fletcher (2001) cited by Latham and Mann (2006).

While the appraisal literature has seen merit in peer feedback as more objective and effective, the governance literature has taken note of the Board members' reluctance to critique a colleague's performance (Jay A. Conger and Lawlor III 2002).

4.4 Ontological considerations[15]

"Behind every managerial decision or action are assumptions about human nature and human behaviour." - Douglas McGregor

We have established the state of Board Evaluations in India through the precursor research cited in the earlier section (3.4). The tick-in-the-box approach and low adaptation corroborate with studies in other countries. Notwithstanding the guidelines and best practice codes, boards generally have been slow to adopt the Board Evaluation (Ingley and Van der Walt 2002). In a study of companies listed on the Toronto Stock Exchange, five years after introducing voluntary compliance to self-assessment by the Board, fewer than 20% of the companies had implemented a mechanism for carrying out Board Evaluation (Kazanjian 2000). Five years after the mandate[16], the scenario appears similar with resistance to adopting the Practice in India.

There could be many possible causes for resistance to Board Evaluations. It has been argued that board members' opposition and general reluctance to evaluate high-profile board members could be the foremost cause. The Board's socio-cultural, interpersonal, and group dynamics may undermine the Practice.

The possible impediments could include the lack of established goals, roles, and standards - the three foundational aspects without which any appraisal/ evaluation may not be feasible. It has been argued that Directors who, by definition, are highly accomplished individuals may not have been subjected to formal evaluations for years and lack the appetite for the same (Steinberg cited by Ingley and Van der Walt, 2002). Fears arise from questions such as *'how does one critically assess a peer without causing conflict and harming working relationships?'* or *'Is it reasonable to evaluate busy executives who participate on boards on a part-time basis?'* (Jay A. Conger and Lawlor III 2002). Many directors are not trained to direct and fear that their assessment will lack some areas (Garratt (1997) cited by Ingley and Van der Walt, 2002). Fear of opening Pandora's box that may require dealing with underperforming directors, disrupting a Board's collegiality, and assessing fellow members to whom the exposure is limited (Kazanjian 2000). Also, the argument 'evaluating the performance of individual board members drives away good candidates when there is a competition to attract top directors' (Jay A. Conger and Lawlor III 2002) has been cited as the rationale for the current state of implementation. The speculative propositions and anecdotal evidence in the literature require deeper inquiry.

5 BE research – an opportunity in theory building

[15] Ontology - to use Gioia(2021) expression 'our assumptions about the nature of the phenomena we study'. Therefore, this section covers cues from literature to highlight my assumptions about the reality of Board Evaluations

[16] It was passed in late 2013 and made effective from 2014; the first set of guidelines issued by SEBI in 2015 (LODR)

"Great governance is a journey, not a destination. Past performance is no guarantee of future success. The board that becomes self-satisfied may underperform its full potential." - Barry S. Bader

"All publicly traded companies are required to conduct an annual evaluation of their Board of directors to ensure that it is fulfilling its obligations to the Company. Research evidence suggests, however, that many board evaluations are perfunctory exercises that fail to address the performance of individual directors and boardroom dynamics. Why? Are these elements too difficult and time-consuming to evaluate, or do board members not want the feedback? What are the social and psychological barriers to conducting a board evaluation? How can these barriers be reduced?" (Taylor, Larcker, and Tayan 2017) These questions are as relevant to India as to the USA.

The literature reveals gaps in responding to the questions raised by Taylor et al. Although there are multiple conceptual analyses, we lack empirical evidence. The scholarly work for understanding BE is clustered around a handful of practitioners and is in its infancy (Nordberg and Booth, 2019). Editors of the journal Corporate Governance: An International Review identified several gaps in the literature (Filatotchev and Wright 2017). A few of those significant gaps in corporate governance research include (i) replication of studies without theorizing the contextual differences, (ii) failure to look in a fine-grained way at the human and social capital of Boards, (iii) Over-reliance on the governance and institutional context in "Anglo-Saxon" countries, and (iv) there are very few qualitative studies of governance, particularly in top journals.

In addition to the above, India presents a unique opportunity where policymakers have increased emphasis on the importance of Board Evaluations. The gap in the BE literature is acute globally. In India, even the overall gap in corporate governance is very high, as cited in a 2020 study of 161 published research papers in India (Almaqtari et al. 2020).

The Corporate Governance Assessment 2019 for BSE100 companies reveals that while most companies mention board evaluation, they remain hesitant to disclose the evaluation outcome. Only 8% of the biggest BSE companies provided a board improvement plan in some form post the board evaluation process (IFC 2019). There appears to be a reluctance to embrace the Practice. The variables which impede are not adequately understood. Even as the Practice of Board Evaluation declarations in annual reports are on the rise due to pressure of regulations and best practice codes, it values form over substance, as was revealed in a few pilot interviews with the Directors carried out by me in 2019 and again in May 2021 in preparation of this research proposal.

(Taylor et al. (2017) noted that the Board Evaluation exercise is often not performed in a rigorous matter and, in many companies, omitted entirely so that directors can move on to the *real job* of "Being a board member." They argue that this attitude is a mistake. They even advocate a review of individual Directors and their interpersonal dynamics, notwithstanding the more difficult and time-consuming effort involved. It represents a significant opportunity for improvement by examining each board member's roles, contributions, and effectiveness. (B. D. Nordberg and Booth 2019) have gone a step further in cautioning that *"If boards come to view evaluations principally as symbolic, there is a danger the process can be used in a manipulative way."*

The opportunity exists to address a largely untheorised field where 'Practice' has been in vogue for the past five years (SEBI issued Board Evaluations guidelines in 2015 & 2017). Therefore, I aspire to add my bit to the 'Theory building' in the field with nascent literature and little empirical research. It will also provide an opportunity to (i) establish a baseline for the state of Board Evaluations and (ii) evolve a suitable framework applicable for BE, at least for the Indian companies. Hopefully, this research and findings will integrate BE-theme into a more comprehensive understanding of corporate governance as envisaged by D. Nordberg and Booth, (2018)

6 Research Methodology and Design

"When learning is purposeful, creativity blossoms. When creativity blossoms, thinking emanates. When thinking emanates, knowledge is fully lit. When knowledge is lit, economy flourishes." — A.P.J. Abdul Kalam

This section covers the research problem and the nature of research in Board Evaluations in light of the literature review. It explains how a qualitative research design fits the investigation of this problem. It covers the implicit and explicit assumptions about the research theme, the research paradigm choice, and the research methodology.

6.1 Research Question

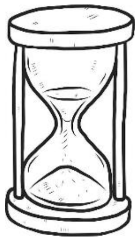
"The important thing is not to stop questioning. Curiosity has its own reason for existing." - Albert Einstein

Thus far, I have attempted to establish that the Board Evaluations are widely advocated, accepted as the desired bedrock for good corporate governance, and mandated by the law. However, there appears to be a considerable reluctance to adopt the same by company Boards. Despite the mandate for over five years, the company Boards in India have generally chosen the form over substance.

In India and elsewhere, board evaluations are a perfunctory exercise that fails to address individual directors' performance and boardroom dynamics (Taylor, Larcker, and Tayan 2017). The literature does not answer questions that Taylor, Larcker and Tayan (2017) pose: *Are these elements too difficult and time-consuming to evaluate, or do board members not want the feedback? What are the social and psychological barriers to conducting a board evaluation? How can these barriers be reduced?*

The impediments are not yet established. Moreover, it is yet to be found how a few companies which exemplify this Practice have overcome the barriers/ bottlenecks. Therefore, the research questions are: Why do the Directors resist Board Evaluations (BE)? How can Boards facilitate the adoption of effective Board Evaluations?

An hourglass view of the proposed research (next page)



What can be done to improve corporate governance?

How to increase the adoption of effective Board Evaluations?

Why do the *Directors* resist Board Evaluations (BE)?
How can Boards facilitate the adoption of effective Board Evaluations?

What steps can Directors take to embrace BE?

How can corporations enhance the payoff from BE?

What policymakers can do to improve corporate governance?

6.2 Epistemological considerations[17]

"Knowledge would be fatal. It is the uncertainty that charms one. A mist makes things wonderful." — Oscar Wilde

The dominant academic literature concerns how structural components of the Board influence corporate performance positively. In this respect, the ownership structure, remuneration, board size, board composition, and board leadership structure (e.g., CEO duality, promoter management) are the characteristics found to have been frequently used in academic research. As opposed to this, the practitioners have often attached greater importance to "soft" elements, which are nearly absent in the literature and in the governance ratings (Berghe and Levrau 2004).

Based on the last quarter-century of research in corporate governance, the editors of CGIR (Filatotchev and Wright 2017) observed - from agency theory underpinnings in the early research -- new domains such as behavioural view of corporate governance, institutional theory, and sociology grounded approaches have emerged. However, they noticed that even the researchers who focus on the "human factor" confine themselves to variables like 'percentage of independent directors' and 'number of women on the Board' (diversity).

Such structural and demographic variables have proved unreliable; and failed to establish any clear consensus on the characteristics that lead to outcomes (Forbes and Milliken 1999). These are too simplistic for the study of the governance phenomenon. Instead, the researchers are now being encouraged to look in a fine-grained way at Boards' human and social capital (Filatotchev and Wright 2017). The effectiveness of Boards is likely to depend heavily on social-psychological processes about group participation, interaction among Directors, exchange of information, and other critical discussions (Forbes and Milliken 1999). Not a surprise, therefore, that the more challenging and value-producing part of the Board Evaluation process is to review the contribution of individual Directors and the interpersonal & group dynamics among board members (Taylor, Larcker, and Tayan, 2017).

Finally, in the available literature, the governance and institutional contexts are often oversimplified, e.g., the distinction between countries with common and civil law traditions, which largely ignore the differences between formal and informal 'rules of the game' that vary significantly across countries. The proxies chosen to represent the institutional variables ignore country-level differences, e.g., studies covering 'executive directors' have missed that only the CEO is part of the Board in some countries. The theorising basis of such studies does not corroborate with the ground reality.

[17] Epistemology -- the nature of knowledge and ways of knowing and learning about social reality. Therefore this section covers cues from literature to highlight my assumptions about the best way to study this phenomenon.

Therefore, inductive research held an enormous appeal to carry out this research. In that, the approach undertaken was to find the model grounded in the social construction of our informants, the Directors serving the Boards of corporations. In other words, it is to discover their implicit theories of how their world works because it is their reality we are trying to understand (D. Gioia 2021).

6.3 Envisaged conjectures

"Most areas of intellectual life have discovered the virtues of speculation and have embraced them wildly. In academia, speculation is usually dignified as theory."
— Michael Crichton

The precursor research cited above, interactions with a few Board of Directors, brainstorming with my Guide, who serves as a Board member, and my experience as a consultant (evaluated 35 Boards in the past four years) led me to draw up the following conjectures at the start of research:

1. As opposed to the quantifiable or structural elements (e.g., the proportion of independent directors, CEO duality, ownership structure, women directors on the Board), specific soft factors influence the adoption/ resistance of Board Evaluation Practice, e.g.,
   a. A champion director who believes in usefulness and is committed to the cause
   b. The specific demands on the Board (e.g., a long list of statutory/ compliance rules in the financial sector) leave no time for Board Evaluation
   c. The dynamics of the Boardroom (e.g., norms of openness, candid participation, and expression of cognitive differences)
   d. Specific cultural elements that have evolved within a Board (e.g., a culture of working in silos in committees while the full Board meetings act as forums for passing resolutions/ tabling crucial information)
2. There are specific attitudes and dispensations towards the process of "Board Evaluation" which promote/ prevent the adoption of Practice (e.g., Chairperson/ CEO/ NRC Chair's views of usefulness of the exercise or their opinions about Directors' ability to deliver an objective assessment or fears that the Board Evaluation may result in reputational harm or that this is a tick box compliance item which the Company Secretary can deal without overburdening the Board)
3. Specific demands on the Board (e.g., listing on exchanges like NYSE/ LSE) and the applicable mandates/ investor demands for better governance alter the adaptation to Board Evaluation.
4. Demands from the sectoral regulator (e.g., RBI seeks Banks to furnish a Board Evaluation report) may trigger tickbox or genuine compliance for fear of adverse reaction
5. Inertia to carry out a process that offers freedom to the Board (for, over a quarter of a century, many of the Boards have come to see themselves as structure/ rule compliance bodies, with all unstructured work being that of executive/ management team)

6.4 Research Design

"A good story cannot be devised; it has to be distilled." – Raymond Chandler

In addition to the ontological considerations and the precursor research findings, the design took cognisance of the following

1. The bulk of Board and governance research has been conducted under the rubric of positivism and hypothetico-deductive science and holds an underlying assumption of an objectivist reality. Most of these studies primarily collected quantitative data, large-scale surveys, questionnaires, and publicly available documents" (Crow 2016).
2. Most studies have focused on the agency theory lens and ignored the other underpinnings. Most papers have used legal, finance, and theoretical economic frameworks to analyse how governance mechanisms control value distribution at the firm level (Zattoni and Van Ees 2012). In the process, two vital compromises have occurred: (1) there are several contradictory conclusions, and (2) a wide gap between ground reality and literature findings
3. The Board deliberations, decision-making, and functioning are shrouded in secrecy; for instance, a survey of Board Evaluations and Boardroom dynamics at Stanford University (Taylor, Larcker, and Tayan 2017) revealed a paradoxical finding. While rating, the Directors rate their Board a '4' on a scale of 1 to 5, and the vast majority (89%) believed their Board has the necessary skills and experience to oversee their companies. However, they expressed significant negative sentiments when probed on specifics. These included – (i) only 64% believed in their board's openness to new points of view, (ii) only a half of them believed that Board leveraged the skills of all board members, (iii) only 46% saw their board tolerating dissent, and (iv) 46% believed that a subset of Directors had an outsized influence on board decisions (a dynamic referred to as "a board within a board").
4. Compared to quantitative studies, there are relatively few qualitative studies of governance, especially in top journals. Further, citing several papers, Filatotchev and Wright (2017) highlight the shortcomings of the qualitative studies; the primary failure – is the absence of specificity about the kind of study, such as a positivist theory building, interpretive, narrative, or social construction. My attempt in this proposed design is *to balance the rigour and relevance* advocated by (Zattoni and Van Ees 2012).

A significant opportunity lies in generating insights about the softer elements such as mindset & attitudes of actors, socio-cultural influence, and interpersonal and group dynamics in the Boardroom, which helps or hinders the adoption of Board Evaluation practices. Therefore the approach adopted focused on inquiries which may lead to posterior propositions/ hypotheses (Jaeger and Halliday 1998) rather than a priori hypotheses testing or interviews concentrating on the conjectures described earlier.

One may recall the famous organisational researcher Kurt Lewin's observation, “Theory without practice is sterile; practice without theory is blind” (Bhattacherjee 2012). Considering the spirit and the preceding discussion, the term “inductive” has been borne in mind to adopt a ‘Theories-in-Use’ (TIU) approach. Rather than simply focusing on a type of data as the term “qualitative” has come to denote, I have taken a naturalist view to evolve theory in a socially constructed manner (Gephart cited by Eisenhardt, Graebner and Sonenshein (2016). The guiding assumptions are that the corporate world is essentially socially constructed, and my informants are “knowledgeable agents,” i.e. they know what they are trying to do and can explain quite knowledgeably what their thoughts, emotions, intentions, and actions are (Gehman et al. 2018).

The focus of this research has been to discover the mental models of crucial actors in Corporate Governance, viz., the Directors as individuals and the Boards as the units of study. In turn, leading to a theory construction process that involved developing novel if-then propositions instead of the theory-testing process of empirically assessing the validity of previously developed propositions (Zeithaml et al., 2020).

7 Research Sample

"Highly organised research is guaranteed to produce nothing new."
— Frank Herbert

A purposive sample of directors was chosen to represent the Indian industry. Of the envisaged 20 Directors sample size, I interviewed 18 high-profile professionals; many are acknowledged as industry captains in India. They have served multiple sectors and bring a rich experience as the corporate governance custodians in an Executive or Non-executive capacity. The highlights of their collective Boardroom experience:

- 700+ Board-years[18] (median 25.3) in 56 listed companies representing a market cap of more than 12% of BSE 500 companies (2021 June).
- 308 Board-years (median (16.5) since 2014 (i.e., the year when Board Evaluation practice started)
- Collectively they brought the experience of approx. 211 Board Evaluation cycles

The sample-set comprised 17% women and 83% male Directors with a median age of 65.5 years. Since 2014, they have served 40 unique BSE500 companies varyingly owned/ managed

- Professionally managed – 16
- Family/ promoter managed – 15
- Foreign companies – 5
- Public Sector Undertakings – 4

The selected sample paved the way for a direct engagement with the actors involved in the governance phenomena (Mcnulty, Zattoni, and Douglas 2013), an element essential for the TIU approach to this research. They meet the criterion of being the ''knowledgeable agents'' explaining reality through their thoughts, intentions, and actions (D. A. Gioia, Corley, and Hamilton 2012).

[18] Board-year represents serving one year on one company Board, e.g., a director serving on the Boards of three companies for 5 years would make it 15 Board-years

8 Interviews

"Truths are as much a matter of questions as answers." — Ozzie Zehner

The interviews took place from 19th May to 9th Aug'21, each lasting 45-90 minutes. Most interviews were digital, viz. a video interaction over Zoom. The interviews were recorded with permission from the individuals and subsequently transcribed. The grounded inquiry entailed obtaining their perspectives on

(A) how they saw Boards respond to the process of Board Evaluation and

(B) their own experience and assessment of the efficacy of the BE process

The central Questions

A1: What was the interpretation of the Board Evaluation mandate by your Board. How did the Board interpret this mandate?

A2: Can you please share a narrative or storyline of this Board's implementation or otherwise of Board Evaluation?

- What was the practice?
- Who were the key influencers?
- Who/ what made it possible?

B1: What is your own perspective on the Board Evaluations mandate applicable to Indian companies? The purpose it serves currently and the potential of its usefulness?

B2. In your experience, the Boards who are reluctant to deploy Board Evaluations in the right earnest, why do they do it? What factors impede the adoption of Board Evaluation Practice?

B3. Would you consider any of the narratives you shared earlier as exemplary/ good deployment of the Board Evaluation Practice? What factors contributed to instituting it as a helpful practice?

B4. What changes would you recommend to make it even better?

8.1 Interview process

Of the above two segments of an interview, the choice of (A) helped set the context and seek an overall Board response. The idea was to obtain a storyline narrative of the Board Evaluation process from a particular Board. This approach elicited the context in which the decision choices for the Board Evaluation occurred. Most of the interviewees' multiple Board Evaluation experiences from numerous companies and the choice of (A) facilitated their reflections in contrasting situations.

In most cases, I was introduced to the interviewee by someone who had known them. A formal mail invite from ISB had helped establish credentials. Nevertheless, the first 5-10 minutes of interaction helped build rapport and seek their permission to record the interview. I often shared with interviewees my motives as a researcher, the evolving thought, insights from precursor research, and reinforced ''anonymity'' to gain trust and seek permission to "record". The absence of these measures could directly affect the degree of openness during the interview. Notwithstanding, one interviewee made me stop the recording to narrate a few pointers; they wouldn't leave any recorded trail.

Within the first few interviews, given the high status of the participants, I took a leaf from (Morais, Kakabadse, and Kakabadse 2018) experience of adopting the technique typical of a political science interview. The elite interviewees do not enjoy being and often refuse to be, straight-jacketed by a predetermined, sequential ordering of questions. It suited the needs of this research to probe for information and provide the interviewee with the flexibility in elaborating their responses. (Aberbach and Rockman, 2002; Kincaid and Bright, 1957 cited by Morais, Kakabadse and Kakabadse, 2018).

The resultant impact was akin to the one reported by Kakabadse et al.

- A trade-off between 'the advantages of conversational flow & depth of response and the disadvantages of the inconsistent ordering of questions'
- A conscious effort to avoid the trap of being caught in the often dominant and persuasive views of interviewees
- Coding and analysis were not easy
- Increased difficulty in producing an analytically elegant end-product

It was engaging to uncover the Corporate Governance practices and listen to the retrospective and real-time stories. On the whole, gathering insights through these semi-structured interviews was, as (Zeithaml *et al.*, 2020), cite a 'special variant of fun.' The interview questions continued to evolve mainly through the first five interviews. The inspiration came from Prof Ramnarayan (a dissertation committee member) and Gioia et al. (2012's advocacy to follow the informants' lead in the quest for the research question. I was conscious that the interviewees from the upper echelons always have larger agendas and work to protect their interests. Therefore, diplomacy and discretion went alongside transparency (Bansal & Corley, cited by (D. A. Gioia, Corley, and Hamilton 2012).

8.2 Coding

I generated interview transcripts using Otter (https://otter.ai/) or Office-365. Listening to the 5-to-15-page interviews, I edited to rectify the transcribing errors of 20 hours of recording, yielding about 180 pages. The transcript files for each interview were iteratively coded in Nvivo (first-level coding). The Xcel file generated from NVivo containing the first order codes helped carry out the higher order of coding.

8.3 Analysing Data

I examined Williams & Moser's (2019) "Open, Axial, and Selective" coding, after a bit of trial settled for the other established practice using the ''1st-order'' analysis with informant-centric terms and the ''2nd-order'' using researcher-centric concepts & themes. Van Maanen, cited by Gioia, Corley and Hamilton (2012), Mcnulty, Zattoni and Douglas (2013), Mcnulty, Zattoni and Douglas (2013) and Morais, Kakabadse and Kakabadse (2018) papers helped me appreciate the inductive research aspects of corporate governance. These methods and references provided nuanced access to informants' thoughts, perspectives, and reactions.

The first level of coding yielded views on the corporate governance ecosystem, BE practice dimensions (such as status, criteria, mechanism, norms, temporal impact), collective Board orientation, individual member orientation, Board leadership, culture, benefits from BE, etc. I used NVivo, for the first-order coding and MS-Excel for the second-order coding. The first-order coding produced over 60 codes. (Annexure16.4). A sample of the second order codes and theoretical references given at Annexure16.5.

9 Internal validity

"Don't trust everything you see.
Even salt looks like sugar." — Narges Obaid

9.1 Sample selection

The sample names were run past my Guide and the dissertation committee chair, who is an active Board member and keeps well abreast of corporate governance and Boardroom dynamics of the Indian industry. Of the 20 sample names drawn, 18 interviews were conducted in a scenario wherein, by about the 14th interview, the data saturation had started to surface.

9.2 Inquiry Protocol

Interview protocol (Annexure 16.3) evolved after (a) initial discussions with my mentor (Prof Kallapur) and (b) finetuned basis discussions with another member of the dissertation committee (Prof Ramnarayan) basis the first five interviews. It was iteratively adapted to achieve data saturation on various questions

9.3 Coding

The internal coding validity was carried out in three stages to finalise the data analyses.

1. Codes were defined iteratively. Basis the first five interviews, selected 180 statements for initial coding, which were then independently coded by Ms Nandini Jain (a professional in the corporate governance field). Of these, on 25 (13%) statements, she offered a different perspective, of which 10 (5%) were accepted, 3 (2%) were rejected, and the remaining required other codes.
2. The pilot coding work, including differences in perspectives and resolutions, was reviewed and vetted by Prof Ramnarayan. Thus a process of coding was established.
3. After the first level of coding, 622 statements coded from the remaining 13 interviews were coded by me and independently vetted by Nandini. Each of the 94 variations was discussed and finalised basis clarifications; thus, resolving the differing interpretations of some informant terms and finalising the consensual interpretations.

10 Key Constructs

"Don't look at a problem and put variables in there that don't affect it."
- Bill Parcells

Having elaborated earlier on the relevant perspectives for the Board Evaluation (2.4) and the status of Board Evaluations indicating a tick-box approach (4.4), I present the critical construct that became the fulcrum of this research, viz., *effective Board Evaluation* ***eBE***.

In the later part of this dissertation, I will explain the three other constructs that emerged during this research. Gehman et al. (2018) have advocated that studying this world requires an approach that captures the organizational experience in terms that are adequate at the levels of (a) meaning for the people living that experience and (b) social scientific theorizing about that experience.

Therefore, I believe the three constructs of Board Capital, Chairperson Competence, and Board Culture are better-explained basis the findings from this research (section 11) with the corresponding discussions (section12). Thus, this research's findings will demonstrate how they moved from the data to conceptual insights (Filatotchev and Wright 2017), a much-underscored need.

Let us cover eBE first,

The proposed *eBE* is more a 'concept' than a 'construct'. The usual notion of developing a 'construct' is that it can be measured as a variable and may not apply here fully. In adopting this, I am guided by Gioia, Corley and Hamilton (2012) that *concepts are precursors to constructs* and that a 'construct development and measurement sometimes blinds us to a more general, less well-specified notion capturing qualities that describe or explain a phenomenon interest.'

I explain the rationale for not converting this concept into a *'variable construct'* at the end of this section.

10.1 effective Board Evaluation (*eBE*)

Scholars, industry experts, and policymakers have considered and advocated a virtuous cycle of good corporate governance, where the Boards uphold the spirit of Board Evaluation. The earliest arguments in favour of the appraisal of directors advocated that the evaluation must yield *what the directors accomplish or fail to accomplish for their companies as evidence of good performance* (Blair 1950). In the subsequent years, the scope & focus of corporate governance has encompassed a much broader range. However, the board evaluations' role, value, and contributions in the available literature remain anecdotal. Although scholars have sought to conceptualize the practice, we lack a fuller understanding of the promised benefits and feared drawbacks (B. D. Nordberg and Booth 2019).

The first attempt to formalize the corporate governance best practices, viz. the Cadbury Report (Solomon 2020), advocated the effectiveness of *how Directors of the board (as a whole) work together, their collective ability to provide both the leadership and the checks & balances* (Cadbury 1992). To bring about efficacy in board evaluations, the last three decades of literature, governance codes, and legal mandates have advocated different dimensions of Board Evaluation (i) comprehensiveness – typically covering the Board as a whole, the committees, and individual directors (ii) mechanisms such as – peer feedback, questionnaire-based, third-party/ experts administered etc. (iii) criteria for evaluation such as – time & effort spent (e.g. attendance at Board meetings), openness (e.g. uninhibited participation), knowledge & skills (e.g. composition of Board/ committees), and oversight (e.g. on Strategy, Executive action)

I have leveraged the following pointers for evolving the concept of *eBE*

- …well-managed appraisals can increase a board's effectiveness and accountability and improve its relationship with the CEO… to be effective, boardroom appraisals need specific, clearly defined steps and practices, and commitment from individual directors and the CEO (Conger and Lawlor III, 2002)
- …enhance director's contribution to Board Performance, demonstrate a standard of excellence to shareholders, improve understanding of new directors, improve the composition of Board, quality of meetings and relationship with management (Long, 2006)
- …balances conformance responsibilities and performance responsibilities, achieving excellence in both by maintaining an ongoing dialogue at the table (Bridge and Band 2011)
- The more difficult but value-producing part of the board evaluation process is to review the contribution of individual directors and the interpersonal and group dynamics among board members (Taylor, Larcker, and Tayan 2017).

The directors interviewed during this research shared their perspectives to help me further refine the concept of *eBE*. A few of their notable voices:

- *"Although many an item is the tick in the box against standard questions to be evaluated, the process was useful."*

- *"Besides the forms and formats and rating of each parameter, I do a 1-to-1 discussion with all executive and non-executive directors and discuss the same in the independent directors' meeting, which adds tremendous quality to the discussion about Board functioning. We have wonderful culture characterized by mutual trust and respect. Informally, members candidly share their perspectives and expectations along with the views of independent directors; thus collating the feedback for the chairperson which comprises the themes to be actioned upon."* (comment from lead director responsible for Board Evaluations)
- *"To me, the real meat comes from the qualitative comments* (not the tick boxes against Likert scaled questions).*"*
- *"A Board evaluation must add value from honest, open discussions and members' ability to disagree. It's about adding value to the business propositions and strategy going forward. And no one individual knows the best. ...Cognitive diversity has huge implications."*
- *"Good thing about it is, it forced a conversation. Provided an impetus to set expectations through this exercise. The conversations helped us understand each other much better."*
- *"The key features of board evaluation are that (a) the Chairman is supposed to give feedback to individual members, 1-on-1. (b) the rest of the members also evaluate the chairman."*
- *"It is taken very seriously; a structure is evolved and followed, yet It is reviewed under the current (every year) circumstances if there is a need to add other questions. Because SEBI has given a broad framework and not exactly defined that."*
- *"It was an uncomfortable exercise, but it got formalized through a process in which the Chairman would individually have conversations. Depending upon the strengths of individual board members, tell them whether they are adequately supporting or more support was needed."*
- *"Independent directors must be proactive in this entire Board Evaluation issue."*

An example of a practical Board Evaluation can also be found in Marico

> "as chairperson of the governance committee, Hema carried out an insight process each year. A questionnaire was given to each board member and the company leadership team, followed by a one-on-one insight dialogue with each member. It focused on a range of aspects, including board processes, dynamics, succession planning, capability building, strategy and risk appetite, future readiness of the company and management, and board contributions. These findings were thrashed out at board retreats." (Mariwala and Charan 2021)

Basis those mentioned above (literature, interviews, and industry example), I postulate the following as elements of an *eBE*

What to evaluate:

- **Leveraging the knowledge and expertise of Directors** may occur during the formal meetings or otherwise -- Conger and Lawlor III (2002) cited a board member's voice "Not every board member contributes actively and asks questions at board meetings... It is what goes on in sidebar conversations, at dinners, telephone calls between meetings that may matter." Therefore, the questions limited to evoking the formal Boardroom behaviour may not do justice to their actual contribution

- Evaluate the **availability of capabilities to steer the company in future**
- The **Individual work ethic** displayed by the directors (the six dimensions from Conger, Finegold and Lawler, 1998) viz., Knowledge of business, Knowledge of senior management, Preparedness, Initiative, Time commitment, Integrity
- **Board cohesion and team effectiveness** -- it is critical to evaluate the overall efficacy lest individuals optimize self-performance; for, the Boards are essentially an interdependent group of adults (Jay A. Conger and Lawlor III 2002). The Board cohesion affects directors' commitment to their effort (attendance and time spent), initiative (exchanging relevant information), monitoring, and resourcefulness. Further, it reduces turnover intentions, lowers the communication & coordination costs, and members are willing to subjugate their interests for the long-term goals. (Olie, Elko, and Hugo 2020)
- **Mechanisms of Board functioning** (flow of information, the efficacy of meetings, norms etc.)

How to evaluate:

- Peer assessment (besides the collective evaluations for the Board and each committee)
- Opportunity for a detailed written response
- Collated by a trusted adviser
- 1-to-1 discussions – *"not just the feedback but even the process of evaluation",* as quipped by a Chairperson

Who should evaluate:

Essentially this is a self-evaluation by the peer group. In some cases where the overall maturity level/ willingness to be forthright is not high or for administrative reasons, an external agency is appointed to collate the collective and individual voice of the Directors.

The above elements will indicate that the Board Self-assessment is no cursory exercise but, as noted by Nadler (2004), an 'exhaustive culling of quantitative and qualitative data through surveys, confidential interviews, and facilitated group discussions.'

10.1.1 Defining Effective Board Evaluation (eBE)

An *Effective Board Evaluation* involves collective self-assessment by members of a Board of

1. the capabilities & work ethic[19] of the Directors,
2. mechanisms & norms of the Committees and the Board as a whole, and
3. provision of feedback to every Director

[19] **Work ethic** is a belief that work and diligence have a moral benefit and an inherent ability, virtue or value to strengthen character and individual abilities. It is a set of values centred on importance of work and manifested by determination or desire to work hard. Social ingrainment of this value is considered to enhance character through hard work that is respective to an individual's field of work. (Wikipedia)

with the objective of leveraging their expertise and the Board's cohesion to steer the Company in the future and enhance the Board's functioning to improve corporate governance. A trusted aggregator collates the assessments, feedback, and suggestions arising in the process.

Avoiding a 'variable construct' as an outcome measure for this research:

Arguably, the *effectiveness of the Board Evaluation* would appeal as a better outcome variable, for it could introduce an element of measurability. To appreciate the rationale for ignoring this proposition, we must note that there's a lack of clear understanding of what makes the governance system effective (Larcker 2019); yet, there has been a tendency to overgeneralize. One sees the terms such as good governance, governance quality, board oversight etc., are still emerging and yet to evolve as theoretically robust constructs or reliable practitioner measures. The structural measures (CEO duality, director independence, size of the Board etc.) have proved to be unreliable proxies in several studies.

Usually, the construct is formulated so it can be measured, lending itself to parsimony and consensually. However, construct development sometimes blinds us to the more important "concept", a more general and less well-specified notion capturing the qualities that explain a phenomenon of theoretical interest (D. A. Gioia, Corley, and Hamilton 2012).

The *effectiveness of Board Evaluation* can be seen as a multi-dimensional measure, requiring calibration along multiple dimensions. While agency theory zealots would prioritize the *control role*, the institutional lens would warrant seeing a measure of *service role*, and the resource dependence view would consider *resourcefulness* as critical (ref 2.2 for the roles of Board of Directors). Finally, when the Board Evaluations are dominantly a tick-in-the-box ☑ box, the *effective Board Evaluations* as the outcome variable presents an opportunity to look at a discrete measure that confirms the absence of a tick-in-the-box ☑.

Buoyed by the possibility of generating a deeper knowledge of the Board functioning, which I attempted to uncover through grounded inquiry, I chose the approach toward *eBE* as defined above. I hope the proposed concept and the findings of this research will fulfil the needs expressed by Filatotchev and Wright (2017), viz.,

- will be seen as a theoretical contribution that avoids simple replication,
- favours theorizing a contextually relevant construct, and
- a fine-grained way of studying the human and social capital of the Boards, essential both for the monitoring and adding value

11 Findings

"Wisdom at the mountain-foot sees farther than intelligence at the mountaintop."
— Matshona Dhliwayo

The interviews helped me get a first-hand insight into the state of affairs inside the Boardrooms, particularly concerning Board Evaluations. The revelations include:

11.1 Picture of a plurality

Interviews revealed contrasting experiences, practices, and perspectives, indicating many hues and shades of this nascent Practice in India. The range of voices showed that one could not draw a broad-brush conclusion about the state of BE in Indian companies. The following verbatim substantiates this view

- *"This is a useless exercise because the more transparency government demands, the less objective it becomes."*
- *"I must say that it is a very, very positive process. In one Board, the process is probably the best."*
- *"...it's still treated with a little kid-glove right now. So, while the concept is good, I think it should be much more upfront and open."*
- *"There are some Boards where it's the tick the box. These are the Boards where we go through the motions of it. Initially, it's the motion, but with greater trust and transparency in the Board, some insights also start coming."*
- *"My own opinions are changing on the Board Evaluation. We have started having much deeper discussions on the quality of feedback we receive from the Board. Areas that need to improve, their likes and dislikes, forcing them (Directors) to give their opinion in terms of how could we make it better."*
- *"I didn't think it was a good idea. I thought it was a complete waste of time because it is a formality, a tick mark, fill out a form, mark everyone excellent or good... I haven't changed my view on that; this present exercise, the way it's done, is a complete waste of time."*
- *"...like income tax filing returns, by the due date, the forms are filled up and sent."*
- *"So while compliance has occurred, the spirit never got to happen in the Indian organizations. In the two international organizations I served, the board evaluation used to be taken far more seriously. Members gave very frank opinions about their colleagues on the Board, which was never misunderstood."*

It corroborates with the study for the companies listed on the Toronto Stock Exchange (five years after the Board Evaluation guideline was issued). That research, too, demonstrated significant variation in compliance levels across companies ((Kazanjian, 2000). Similarly, Ingley and Van der Walt (2002), citing Steinberg, noted that fewer than 20% of US boards evaluated themselves as a Board or appraised individual directors' performance.

Commenting about different levels of adoption, an interviewee quipped, *"where Board evaluation is a khanapurti (खानापुरती or 'formality') because the government wants it,"* then it would be - a tick-in-the-box. However, he observed that even if one board member takes this seriously, it will influence others. *"In good Boards, the board members want to be evaluated; nobody comes here to get a medal. At this stage and age of life, they want to contribute more than they have done in their careers. It is not the remuneration. It is the reputation that one carries, not just in the market, but for oneself."*

11.2 Mehcanism and Norms

The picture of plurality presented above gets further accentuated with wide-ranging mechanisms that have come into being on different Boards. A few dimensions adding to this plurality include:

11.2.1 Evaluation Criteria:

The mandate for Board Evaluation lays down a wide range of indicative criteria for BE (SEBI 2017). It is the discretion of a Board to determine the suitable measures from among many possible areas (with multiple dimensions), such as

- the structure & composition (Directors' competencies, experience, diversity, process of appointment, committees constituted)
- meetings conduct & secretarial (regularity, scheduling, agendas taken up, information sharing & recording, logistics & resources)
- functioning of Board (clear delineation of roles, independence of Board, the freedom enjoyed by Independent Directors & committees)
- the scope & magnitude of board oversight (company strategy, risks & performance evaluation, conflicts of interests, company culture, succession planning)
- professional development (induction to new directors and continuing education)
- the boardroom dynamics (environment of free flow, quality of discussions, degree of member participation, groupthink, dissent, team spirit), and
- Director effectiveness (qualifications, knowledge, experience, commitment, integrity, initiative-taking, team spirit, contribution).

The mandate requires the Boards to choose the scope and criteria they would evaluate themselves. The Chairperson, with NRC's help, mainly determines the Board Assessment criteria.

The interviews reveal the under-the-hood phenomenon with two distinct facets.

1. The Board ticking-the-box gives primacy to meetings conduct & secretarial, and the compliance aspects. However, Boards keen to raise their performance focus on the functioning of the Board, quality of oversight, boardroom dynamics, and director effectiveness leading to actionable insights. Examples of cited responses in support of these voices include
   a. In support of the former
      - *"The questionnaire essentially establishes whether each director meets the essentials of being a director."*
      - *"whether you are comfortable with the Minutes* (of the meetings as recorded.*"*
      - *"whether the secretarial department of the company ensures that the agenda, papers etc., reach the directors at least one week in advance."*

   b. In support of the later

- *"Whether everybody has the freedom to contribute without feeling constrained."*
- When the evaluation is about *"the way the deliberations are happening, the way he* (a Director) *brings in expert points and adds to the quality of the discussion itself."*

2. Another indicator of whether a Board is striving for *eBE* is the *theoretical lens* that guides the Board's basic assumptions. When the primary lens of a Board is *agency conflict,* then it is indicative of tick-in-the-box, as evident in interview responses such as, "*whether the secretarial department of the Company, makes sure that all the agenda, papers, etc., reach the directors at least one week in advance."* However, when Boards deploy the *stewardship* lens, the softer aspects of boardroom dynamics and behavioural feedback take the front seat. An interviewee with vast experience across several Boards quipped, *"Boards pretend as though there is no behavioural aspect, whereas, in reality, it is very strong."* Similar acknowledgement of stewardship lens was evident in *"they not only look for measurable performance attributes but also for the unmeasurable behavioural inputs. ...you're influenced by their behaviour, i.e., soft part"*.

   A Chairman cited his orientation for a resource-based view, *"Board looks forward to the evaluation because it is seen as a mechanism of raising the bar by making sure that we capture new influences, new thoughts, and* (mitigate) *new challenges"*. While an executive director voiced about assessing the non-executive directors, *"the way he brings in his expertise, adds to the quality of the discussion, and whether he furthers our business using his contacts…."*

11.2.2 Evaluation Process and Practices:

After India moved from a voluntary Board evaluation[20] to a mandate,[21] a guidance note was issued for aiding Boards (SEBI 2017) to establish and institutionalize the BE Practice. It covered significant aspects of BE, i.e., Subject of Evaluation, Process of Evaluation, Frequency, Responsibility, Feedback, Action Plans, Periodic Review, and Disclosures. The guidance note is not a set of rules but principles and non-binding advice. In response, the Company Boards have evolved their mechanisms. Interviews revealed a wide range of Boards adopted mechanisms, further accentuating the plurality of practice. Even within conglomerates with multiple companies, the freedom largely rested with the respective Boards, as voiced by an executive director with a conglomerate who quipped, *"The questions, the scale, and parameters - everything was determined by each company, so the boards evolved it independently."*

To aggregate the voice of Directors, there's evidence of a wide range of mechanisms adopted.

a) Responsibility of Evaluation – the onus of carrying out the evaluation varied from the Company Secretary (on behalf of the Chairperson/ NRC) to a Director member from NRC or a third-party/ external consultant
b) Process of Evaluation – In some Boards, the questionnaire was shared in a form/ document to fill out; in others, the Chairperson sought the Directors' voice in a meeting, and some conducted using a digital mechanism (online questionnaire)
c) Independent Director feedback – In some Boards, before or after collecting the data-form/ questionnaire, the views were collated by an NRC member/ Chairperson in 1-to-1 interactions, or Directors openly voiced their opinions in a meeting or sent a sealed envelope/ email with feedback directly to the Chairperson/ NRC Chair, and in some Boards, they responded to a structured questionnaire

The choice of mechanism is unlikely to indicate if the company is just ticking the Box ☑ or carrying out *eBE*.

However, there are a few visible convergence trends on the processes and practices adopted where the EBE occurs. These include:

Processes

1. A formal process for evaluation of the Board as a whole, each committee, and Feedback for individual directors
2. Use of a questionnaire with Likert scale responses
3. Individual Directors receive feedback from peers
4. BE findings are discussed in the Independent Directors meeting and a full Board meeting
5. The BE has become an annual practice
6. Periodically most of these Boards review/ refine the evaluation criteria and mechanisms

[20] Clause 49 of the Listing Agreement (SEBI) and Corporate Governance Voluntary Guidelines of MCA (2009)
[21] Companies Act, 2013 and SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (SEBI LODR).

One can see a wide range of perspectives and practices deployed concerning the three essential elements of the Board Evaluation mechanism (Minichilli, Gabrielsson, and Huse 2007) viz., the *evaluation agent*, the *evaluation content* and the *evaluation modalities*. There appears to be a near convergence about the fourth element, i.e., the *addressee of the evaluation*; I found that through Board Evaluation, they are primarily focused on improving the internal working structures and processes of the Board. There was no evidence of the Board Evaluation being carried out to satisfy internal stakeholders (managers & employees) or external stakeholders (investors, regulators).

<u>Practices</u>

7. An anonymous collated peer feedback is provided to each Director by the Chairperson/ the Chair of NRC
8. Chairperson, themself is provided feedback by the NRC Chair
9. One notable widespread norm is the Director's assessment elicits a high rating of '4' or '5' on the Likert scale (5 being the best). It appears that the Directors are uncomfortable differentiating their peer group's performance. And also a belief that most Directors deserve as such; a Director quipped, *"the quality of people on both the boards* (I serve) *is of accomplished and committed people ...so generally you'll find that rating is above average"*. Another one confided, *"Unless I find the other board member very mean or unethical, we tend to rate every other director as excellent or very good. You cannot rate any director as average or poor, just because he does not have knowledge of something."* Another interviewee summed up this norm as, *"In India, maybe it's cultural, we are very liberal, we don't want to be seen rating somebody lower. So, unless something is grossly wrong, we give almost five out of five for most people."*

   The literature on managerial appraisal has established similar findings (Latham and Mann, 2006) that have demonstrated that the norm of uniformly high ratings is not uncommon. Cappelli and Conyon (2018) have attributed this to leniency bias and centrality bias.

10. The real meat of insights for the Board and actionable Feedback emerges from the response to open-ended questions. Uniformly high ratings on most questions make it difficult to infer any specific sense. This is recognized by the Board chairpersons, and other Directors, *"Ticking the evaluation box takes not more than a few minutes; however, when one is asked to write (response to open-text questions), it takes time to think and reflect"*.

    It is not always easy to maintain complete transparency. A recently anointed Chairperson who mandated every Director to respond to open-ended questions shared -- *"I think the board evaluation puts it a little bit starkly (unpalatable feedback), and some of my colleagues said that we should not repeat verbatim the peer feedback. I had to explain that we would dilute the exercise if we were to tamper with the direct feedback we would be diluting the exercise. We should not take this as a criticism* *even when certain anguish triggers it; the courage to provide feedback is an opportunity to reach out and clarify the doubts."*

In addition, observed changes in the process help the Boards further evolve the practice and make it more robust. A few have initiated to make Board Evaluation practice beyond a once-a-year phenomenon -- *"I take feedback after every meeting, quick feedback that also feeds back into the annual Board Evaluation,"* shared a chairman. Another Director did not see much value in such continuous evaluative feedback. A few Boards have initiated seeking input from senior managers (non-Board-members) who have exposure to the Board functioning. It is feedback to the Board by the *addressee of the evaluation* as shared by an interviewee, *"In one of the boards, we encouraged executives* (non-board members) *to comment on board positions and individual directors. Executives tended to be far more open."* Further, the board chairperson invited them separately and *"they provided feedback on their experience as well as their assessment of individual directors."*

Engaging an external consultant to support Board evaluation is on the rise. Though one Director quipped, *"If Board members are serious about it, then I don't see why you need an external consultant. But if you cannot get that rhythm at your Board, it will be worthwhile to get an external consultant."*

Notwithstanding different shades of BE interpretations, mechanisms, and adoption levels, the practice has impacted Corporate Governance standards; it appears that for an acceptable level of corporate governance, the Practice is here to stay. A director quipped, "*the genie is out of the bottle now*", echoing the observation by Long (2006) that the isomorphic pressures act on Board practices. While another said, *"There was* (earlier) *never a question to evaluate a Director for compliance; however, in the last five years, this has become very important because of the way the laws are changing for independent directors."* Implying their support for the spirit of the mandate for Board Evaluations and the gaining momentum to implement in support of good governance.

11.3 Temporal effect – maturing over time

Although the current state of implementation of BE, six years after the mandate, appears inconsistent, there's a near consensus that the Practice has matured over the years and continuing to evolve. One of the interviewees, himself a Chairman and champion of the process, said, *"The process of evaluation is a very well structured, but ever-evolving set of criteria."* Most interviewees experienced the change over time for themselves, their chairpersons, and fellow directors. A few of their verbatim comments:

- *"Initially, there was resistance. Some directors have been sitting on that Board for 30 or 40 years. So, there was surprise & disbelief की अरे अब हमको भी कोई evaluate करेगा (translated – oh now someone will evaluate us!)."*
- *"Slowly started getting implemented in all boards of companies of various sizes. And today, it is implemented in all the five or six companies I'm still on the board. It is still evolving, starting as a requirement under the Companies Act."*
- *"The board evaluation today is far more objective. A transition from what it used to be some time ago."*
- *"We all started as sceptics that this is just a cosmetic exercise. It started with spending as little time as possible ...my opinions on Board Evaluation are changing. ...we started having much deeper discussions on the quality of feedback we receive."*
- *"Evolution will take time; we have to start somewhere."*
- *"So, over a period last 7-8 years to today, we have a fairly robust evaluation system."*
- *"Where they were not comfortable about reviewing their peers, now see it as an exercise which benefits individuals as well as Board as a whole"*

An additional factor causing the temporal shift is the change in Boardroom composition and demographics, as evident in a voice – *"...generally there is an increase in awareness on the responsibilities of the Board. Firstly, corporate governance seminars cause a shift in the expectations and secondly, the newer breed of directors are more conscious of their responsibility and scared of their liabilities. They are more vocal"*.

One can surmise that the Directors have begun to see meaning in the exercise of Board Evaluation, some of them a little late than sooner. There is a change in how Board Evaluations are regarded today from when they started. Earlier years' scepticism appears to pave the way for acknowledgement of this practice's payoffs. Again, this is akin to the study by Kazanjian (2000), who observed, "While Board, Committees, and individual Directors' assessment programs have not been widely accepted to date, a significant number of companies will likely be looking to put such programs in place in the next short while."

The interviews indicate that the form has matured much more than the substance, *"...from physical form mostly we have gone electronic... yet many directors shy away from objective assessment."* However, the early adopters have a more robust system. They recognize the distinct benefits of evaluating the Board's functioning, Committees, and helpful Feedback for Director improvement. Candid peer feedback is on the rise; in a few cases, the Management team/ senior executives (non-board members) also provide the Feedback to the Board of Directors.

11.4 Diffusion of Best practices

Over time, pollination from one Board to another leads to BE Practice maturing. Independent Directors serving on multiple Boards, including global companies, transfer good practices and experiences across different Boards. *"I think plagiarism is not a crime here, so they liberally adopted from better-managed companies,"* a Director quipped. It includes copying formats, questions, and language introduced by Boards or even the third-party agencies facilitating BE. The cross-fertilization is leading to more significant learning and a higher payoff for the Boards.

- *"As we observe good practices, we will try and implement the good practices when we take on those roles. We will build the right culture where board evaluations become more meaty. ...we'll get better with each year.."*
- *"Cross-fertilization from one Board to another is brought by them (Independent Directors) ...heterogeneity comes from them, they are also the influencers."*
- *"There were some board members, who the Board tasked to investigate or collate from their experience on other boards..."* in evolving the Practice in the early years
- *"We see primarily the Independent Directors are the torchbearers who spread good practices across company Boards."*
- *"...that they use globally. We decided to adopt the process here."* – Director of a multinational organization, with pride, sharing their adoption of BE.
- *"The biggest influencers are the independent directors. They come with a lot of cross-references. For example, as Xyz will immediately say, 'okay, you think this way, however, I'm in Dr Reddy's, which I think is one of the best companies I've ever been on, and they do this. Why can't we do this?' thus bringing in the best practices."*
- *"...hired one of the best companies internationally to carry out our BE. We went into aspects I have not seen on other boards; it is fabulous."*
- *"I've seen a very diverse range of companies, every company has come with a format, and they liberally adopted from others for the best practices."*
- *"...have come up with reasonable good formats, which gives the expectations of a board director from the stakeholders."*

11.5 Benefits of *eBE*

The recent origin (mandate 2014 and the SEBI guidance note 2017) has meant that most Boards are yet to see even five cycles of BE. Therefore, a precise balance sheet of investments and payoffs accruing from this Practice basis these interviews may be a premature expectation. However, despite the nascency, a few clear signals indicate the gains. Directors see it as *"a mechanism of self-correction, of raising the bar, new influences and surfacing new thoughts."* A few low-hanging fruits include improved time management, increased focus on agendas, and structured two-way dialogue (between Chairperson & individual Board members and Executive & non-executive directors). Only in a few Boards does the emphasis on peer feedback/ individual Director assessment appear to be sharp; in most others, the primary focus is on raising the bar of collective performance, i.e., the Board as a whole/ Committees of the Board. A few of the verbatims:

- *"It puts us in touch with reality and reminds us of our fiduciary and other responsibilities. We sometimes begin to take for granted because we have busy lives."*
- *"The push process of filling up the form helps. But for that, although we may have met* (as Independent Directors)*, we may have overlooked a few* (crucial) *dimensions, e.g., specific expectations from Managing Director. Filling up the form and acknowledging the same is* akin to *self-certification"* while pointing to how the formal BE mechanism adds seriousness to different processes.

The early adopters and mature Boards generate insights to initiate actions for improved Board functioning in diverse areas. Examples of BE leading to corrective steps concerning the composition of the Board, involvement in Strategy formulation, Talent Management & succession, digitalization, and IT thrust surfaced during the interviews.

- *"We did not have anyone on the Board to bring an outside-in perspective. The next independent Director who joined the Board was in line with this gap identified as a part of the board evaluation process."*
- *"I brought up, 'the average age of independent directors being 65 and need for younger Directors in line with young customers', and Board bought that idea. If BE did not provide a formal window to bring up these things, they could have just gone under the carpet in the flurry of all the compliance."*
- *"Strategy was not discussed in greater detail in favour of operational aspects. This has helped focus more on strategy -- How it is drafted and how Board influences the same?"*
- *"There was a lot of lip service to Talent management. Now Board has taken ownership of the first two layers. They recognize that they don't want to be a CHRO, it is still evolving, but there is a definitive shift to more ownership at the Board."*

Also, the *eBE* appears to be contributing to the Directors' continuing education and learning needs.

- *"At least two of the boards I serve, ESG is becoming a big focus point.* (During the BE) *we raised, 'do we understand the nuances of it?' The companies organized sessions where experts came to let us know how it works internationally.'*
- *Certain things not being done earlier got incorporated, like 'a continuous development of independent directors.'*

The most widespread benefit of BE appears to be the feedback generated. A few of the many acknowledgements

- *"The most useful thing I found is 'it sets expectations - यह तुमने अच्छा किया (these are the good things done by you), those are the areas of improvement and given company's direction the specific things you have to do.' Although a similar conversation would happen earlier between the Chairman and Directors* (before BE)*, but not in such a structured manner with feedback."*
- *"One Chairperson shares specific feedback about the things I value and the ones he expects me to add more value. It is a handy input provided individually and one-to-one. He can show the light based on what he gathers from others or observes; that's useful. "*
- *"BE serves a huge purpose because the Board is shown a mirror of its functioning. As a matter of practice, in that independent directors' meeting, we asked management personnel to evaluate us, seeking from them what they demand of us."*
- *"One of the Executive Directors received a low rating. The Board advised Chairperson to counsel him; after that, there was an improvement in his role as a board member."*
- *"Real feedback is given to the Chairman, which is very important. The Board's dynamics and effectiveness depend on how the Chairman conducts the board meetings. When taken in the right spirit, free and open methodology of giving feedback to the Chairman leads to identifying areas for the course correction."*

The forgoing voices confirm the earlier findings in the literature that The 'performance evaluation systems (PES)' are essential for superior Board performance... Board and Directors' evaluations represent an opportunity to carefully assess strengths and weaknesses and establish Board's role in creating value (Roy 2013).

11.6 Causes of resistance/ slow pace of adoption

"Where there is power, there is resistance." — Michel Foucault

11.6.1 Fears and Apprehensions:

As the BE practice rolled out on the Boards, several cases reported the first overriding thought and emotion 'apprehension.' A voice that sums up the reflection on the part of Directors -- *"When it was made mandatory, there was reluctance to go through this whole process. To my mind, the reluctance came from all of them being high-profile people, already proven themselves. तो फिर यह करने की क्या ज़रूरत है (Then why did we need it)? But then everybody recognizes that if it's a mandate, then it's a mandate, and you have to do this."*

Initially, as the BE is introduced, the Directors get unsure about the degree to which the assessment is individualized and the repercussions (external and internal). The choice of words/ phrases to seek feedback & evaluation caused anxiety, which becomes evident in the Boardroom deliberations such as – *"Who has studied these guidelines in detail? Can we have a copy of them? Can we have a look at the template suggested?"*

However, even after addressing the initial apprehensions, Psychological safety and self-assurance appear to be the two triggers that continue to fuel the suspicions of Board members. These factors remain relevant for Directors long after overcoming their inherent fear of being appraised. An Executive Director of a Board, which mainly evaluated NEDs, confided, *"When the time to evaluate came, they were made to comment on their colleagues and judge their performance objectively. I think everybody was queasy about it. I'm sure that the semblance of objectivity was clouded with diplomacy. Because it is not the right thing to comment on somebody who's been with you for years."* A few other verbatim highlighting psychological safety and self-assurance aspects include:

- *"In family-owned companies, the logic through which the board has been put together is unclear. So, essentially, I hesitate to provide qualitative comments; there's also a lack of clarity on how this information will be processed."*
- *"to my mind, you don't want to disturb the dynamics of the Board. All of them are accomplished people in their field. You feel silly trying to evaluate."*
- *"...things don't remain confidential and secret. It spills out to the board through some of the non-board members attending and through them to some of the shareholders and some of the activist shareholders...."*
- *"When somebody wrote something, there was a feeling ', Oh my God, this is going down in print' maybe it should have been communicated verbally. So there is a lot of discomfort about genuinely open remarks and observations made about individual directors and their functioning."*

One may require further investigation to understand whether truly the Chairpersons desire fearful submission of their directors. One interviewee, himself a Chairperson, acknowledged, *"There is a part about how you rate the chairman, and I think board members struggle with that. How free and frank and* *open should they be concerning the Chairman's feedback."* Yet another Chairperson said, *"The directors must have the guts and the ability to question the Chairman because it is not just the organisational reputation that they have to safeguard; they have also to safeguard their reputation."*

Finally, a set of fears emanates from certain role holders who get access to the Boardroom without necessarily being the Board members. These fears included fear of being evaluated, risk of being found lacking in competence/ preparedness/ initiative, or fear of authority. It was reported as a common occurrence in the conglomerates where an ex-officio (e.g., the group CFO) gets to attend and influence Board meetings. One Director quipped, "*...nowadays, the financial outcomes like EBIDTA, PAT, the Market Cap have become significant for all the companies. So, the CFO is a sort of semi-God. His point of view has disproportionately higher weightage, besides promoters the CFOs also control.*" Secretarial department officials being present through the meeting or invited managers or other non-board members appear to trigger anxiety about being evaluated and risk to their reputation.

In the context of Board evaluation, to sum up using the words of an informant, *"Although the process, methodology, and content have stabilized, many directors feel shy to give an objective assessment."*

11.6.2 Bloated Status & self-image

Given the long tenure of Directors, their seniority, often with a past track record of being successful CXOs, acknowledged leaders, and the celebrity status enjoyed by them, etc., seem to make these upper echelons beyond the scope of the evaluation. *'Bloated egos'* of eminent directors were reported to be a barrier to deploying BE Practice, e.g., *"In some of the Boards that I was on, because those Boards had heavyweights with egos, the thought of being evaluated, even if only by the other directors was disconcerting for many people."* A few other voices heard included

- *"Initially, there was resistance, especially from some directors who've been on that Boards for 30 -40 years."*
- *"When looking at independent directors, you must first remember that these are prominent people who come with their egos."*
- *"Many Directors feel they have joined the boards at the pinnacle of their career and have done it all, so they're too good to be evaluated."*

11.6.3 Feedback willingness deficit

As cited earlier, although the value of Board Evaluations lies in response to the open-text questions, the apprehensions impact the degree of candid feedback offered/ received.

- *"The thought of being evaluated was disconcerting for many people, even if it is only by the other directors."*
- *"I am probably not doing enough justice in the first place, so I hesitate to pass any strong judgment... unless I'm reasonably sure and have a strong basis for forming a judgment, I hesitate."*
- *"They didn't feel comfortable evaluating a colleague."*
- *"Many board members struggle with a frank and open feedback to Chairman."*

Many directors believe this is a cultural aspect of India and that the directors of global/ western companies are more forthright. However, 70% of the directors in the UK indicated that they had trouble being frank (Booth and Nordberg, 2021). The deficit in feedback willingness appears to be true on both sides - as a recipient and provider of feedback.

11.6.4 Absence of pre-defined Goals

I conclude that most Boards lack commonly agreed shared goals for the Board. None of the interviews with Directors (except those who were themselves Chairpersons) made any reference to objectives. It is evident that, in general, the Boards try to contribute their best but do not explicitly set the goals. It is well established in the literature that well-defined and accepted goal pursuit is a bedrock for performance accomplishment and, therefore, for any meaningful evaluation. Further, the results of studies have established that people pursuing specific goals show marked improvement in their accomplishments over those who have been told to do their best (E. Locke and Latham 2019).

Like the high-performance team, the high-performance board is competent, coordinated, collegial, and focused on an unambiguous goal. (Nadler 2004)

11.7 Antecedents for *eBE*

"Some solutions are seeds of some problems." — Mokokoma Mokhonoana

11.7.1 Regulatory Mandate

A unanimous view reinforced the finding from the precursor research, *The State of Board Evaluations in India* - the antecedent condition for the Board Evaluations practice is "Regulatory Mandate". It was evident through narratives such as

- *"...it got triggered by the guidance suggested by the regulator that good boards should follow this Practice. So, it came through that route."*
- *"I can, with reasonable certainty, say that most boards look at Board evaluation as a compliance issue, required by regulation.... "*

Before the mandate, the Boards did not feel the need – *''Our Board has been in place for a long time, and you understand each other's strengths to lean on each other. We didn't feel the need to have an evaluation process."* Although a few companies' Chairpersons *"would have a one-to-one meeting with directors,"* a type of informal evaluation *"but mostly nothing beyond that."*

11.7.2 The Composition of the Board

A near-unanimous interview finding establishes another antecedent -- the "Composition of the Board." When a person's status drives the selection as a director (e.g., former bureaucrat, famous economist/ academician) or proximity to the controlling shareholder, it compromises the Board composition. The requirement is for people who will ask difficult questions yet are open to accepting if they are wrong.

- *"I think the right selection of board members is critical to the success of board evaluation, board effectiveness, corporate governance. I think that's absolutely key to success. And the right selection of committee members. And right now, when I'm exploring new boards, for me, that is key."*
- *"...you need to look at how board members are chosen. Are they really chosen for their ability to contribute? Ability to be independent? Ability to see the future?"*
- *"...people who are ex bureaucrats, or somebody who was a famous economist, doesn't work. Because they come only to tell what they've done, select the right kind of people with the right backgrounds.* (Selection must entail) *investigating how well they can challenge* (status quo) *and how well they integrate."*
- *"...it depends on recruitment if you recruited the right kind of members, and you have the right kind of commitments from the members."*
- *"...it is crucial that you have board members who complement each other in terms of their strengths. They must have the expertise, which is more than yours...."*
- *"...I don't mean just male-female diversity; diversity in terms of background, approach, and domain knowledge is required."*
- *"The whole culture depends and starts with the selection of the people."*
- *"You need to have people who will ask the difficult questions but are open enough to accept if they are wrong."*
- *"do you do it* (BE) *as a form-filling exercise or try to derive value depends on the board of directors, the kind of people on the Boards you are on."*
- *"In that Board, the composition is fantastic. It has a diversity of thought, diversity of experience, diversity of age, diversity of nationality, and geography. So is the way we do Board Evaluation, every year."*

Selection bias appears to plague the choice in Indian Boards, as echoed in

- *"The criteria is, 'who knows whom.' Individuals have accidentally become members of the Board."*
- *"When it's a family-owned, you're there on the board partly because you trust the founder, or you are a friend from somewhere. Because you trust that person, you also trust his choices."*
- *"The method of choosing members is often myopic; to bring someone who is going to be convenient* (to manage)... *it is a perpetuation of a certain kind, continuing the way current members were brought aboard."*
- *"There used to be one of the highest-ranking civil servants on Board, never questioning the proposals coming or whatever the promoters wanted to do. They felt they were there because of* (to serve) *the Promoters."*
- *"Often committees are also made senselessly."*

11.8 Chairperson Competence – The mediator to *eBE*

"Experts were once amateurs who kept practicing." — Amit Kalantri

This is one of the two findings where, a near unanimity of views prevailed across all the 18 interviews. Every individual director I interviewed emphasized the importance of the Chairperson's beliefs, orientation, skills and commitment. Notwithstanding the degree of adoption of Board Evaluation practice, they voiced clear views that made it apparent that this is the "X" factor.

- *"This process is only as successful as the commitment of the chairman of the Board."*
- *"The Chairman of the Company, whether an Executive or a non-executive Chairman, unless he is committed to this exercise, it will not take off."*
- *"I can, with reasonable certainty, say that most boards look at Board evaluation as a compliance issue, required by regulation.... The attitude, of course, to a great extent, is moderated by the pronouncements made by the Chairman. Because typically he would initiate discussion on the board evaluation."*
- *"The Chairperson's openness is essential for the Board evaluation to be valuable and useful."*
- *"It really depends on the chair. One may talk about the primacy of independent directors, but the Board's whole dynamics depend upon whether the Chairman wants to allow that or not. I have heard from friends about Boards where 'you do not discuss anything. It's all pre-decided."*
- *"Some companies are perhaps the most cosmetic in the way they do their BE. For instance, the Chairman didn't really want to; he was not interested in going through any feedback. So, we spent 10 minutes in NRC and another 15 minutes on the Board, and the exercise was over."*
- *"The Chairman of the NRC has an influential role to play, but the main stakeholder, who can drive it positively, is the Chairman of the Board. It can happen if he is committed to this process and wants feedback on the improvement or concern areas."*
- *"It requires a very enlightened Chairman to guide the Board Evaluation process. Particularly when the chairman is a dominant founder, it will be difficult to get a fair evaluation unless he is also truly enlightened."*

A Chairman who takes pride in a robust deployment of *eBE* quipped, *"I don't tolerate mediocrity easily. On all my Boards, we do very rigorous Board Evaluation; It includes a family-owned company and a non-public company that we operate as though we are a public company."* Another Chairman echoed, *"I desire to contribute as much as possible in whatever role I play. The Chairman has to set the tone of this exercise, 'I want to know how we can improve this board; I want to know how my style of functioning helps the Board or holds it back.' So, if you make these sorts of statements, hopefully, you will get some honest feedback. However, if you say, 'I think we're good, this is just the exercise we do every year,' you lose the entire plot."*

Therefore, the low-level adoption in a company was no-surprise where a company Chairman described, *"Normally the Chairman's mind is more focused* *around growth, not in these kinds of statutory things. It is at the back of his mind but implemented by various people on the Board."*

The unanimity of views by all the interviewees (Exec Directors, NEDs, Chairpersons, Public or Private sector industry stalwarts) pointed out that the Chairperson was instrumental in getting the Board Evaluation across all types of companies. Further, the fate of *eBE* depends upon the Chairperson's beliefs, orientation, seriousness, and innate abilities, with a willingness to put effort towards the same. Thus, providing us with the mediator variable, which I developed as a critical construct (section 10.2).

11.9 Board Culture – A Moderator for *eBE*

"Experts were once amateurs who kept practicing." — Amit Kalantri

One interviewee serving on the Board of a global corporation and other Indian companies admitted to a significant difference in his degree of candidness on different Boards. Another Director, in his capacity as the Chair of NRC (and in charge of Board Evaluation), shared that it never occurred to him to take the initiative to change the Board evaluation process; despite his knowledge and preference for change, he continued to follow the precedent. The message was clear -- notwithstanding the capabilities and inclination of the individual directors, the boardroom environment and the prevalent norms determined what happened during the Board Evaluation exercise. This example demonstrated that behaviour is a function of a person and environment (Kurt Lewin and several scholars cited by Liden and Antonakis, 2009).

A few other voices sharing the impact of *Board Culture* on Directors:

- *"You need to make the environment such that it does not become a form-filling exercise. Anything can be circumvented, or you can derive value from the board dynamics and the environment of the board. One fabulous questionnaire does not make a difference."*
- *"If the culture of a board is closed, whether you engage a consultant or whatever else you may try to do, the dispensation is to quickly finish a meeting (फटाफट करो) for Board Evaluation say 'everything is good, management knows everything'. However, in an open culture, the Chairperson and the Board tend to recognize they are creating more value for the stakeholders, and everything is done in the right spirit. The final answer is that a great board culture is necessary* (for *eBE*)."
- A director with multiple Board experiences of *eBE* shared, *"DNA accountability for CoA and culture of never compromising on the governance aspects in CoB was instrumental in bringing Board Evaluation."*
- *"The basic premise is that the Board has a culture of openness and diverse views are valued. There is mutual respect and trust when such a cultural tone is set. The qualitative comments come out honestly. They are accumulated and shared with the chairperson and, after that, in the NRC and the Board meetings. Then we all reflect on it."*

As described earlier (section 10.3), the *Board Culture* represents accumulated shared learning that helps it with external adaptation and internal integration. The internal integration is constantly enacted and created by interactions and guides and constrains the behaviour (Schein 2004) among fellow Board members. A few more voices which acknowledged it

- *"Presence of shareholder nominee, shareholding group nominee and founder or previous CEO on a Board tend to introduce different dynamic."*
- *"Board-managed companies are a virtue. In such companies, the Board self-assessment is equal to how the full-time director is evaluated, i.e., an equal*

footing for all directors in respect of their evaluation. After all, get a commission - usually a big chunk of money. So, it all worked in a way to evoke guilt."

- *"I suspect there would be a different dynamic under play when a commission is involved vis-a-vis no commission."*

The following discussion (12.1 to 12.9) covers the inference on Board culture (section 12.9) and other dimensions presented above (section 11).

12 Discussion

Board accountability and effectiveness have assumed centre stage, which is expected to be beefed up through Board Evaluations. However, despite being established that effective Board self-evaluation is a representation of commitment to superior board performance – (Ingley and Van der Walt 2002) (J. A. Conger, Finegold, and Lawler 1998), the Boards have continued to evade or resist *eBE*.

Even after the practice has been conceptualized and mandated over the past two decades, the theoretical and empirical understanding of Board Evaluation has remained underdeveloped (B. D. Nordberg and Booth 2019). This research attempts to bridge the gaps through the empirical insights from the Director interviews.

The findings explained in the previous section and the conclusions (next section) drawn from this research reaffirm that 'the recipe for good governance is not *structural*, but it's *social*. The most involved, diligent, value-adding exemplary Boards are robust, effective social systems' (Sonnenfeld, 2002). And towards being an effective social system, the characteristics advocated by Sonnenfeld (2002) included,

- A virtuous cycle of respect, trust, and candour
- A culture of open dissent
- Fluid portfolio of roles
- Individual accountability and
- Performance evaluation

The conjecture I held (section 6.4 of this dissertation) at the start of the research, i.e., as opposed to structural elements, specific soft factors influence the adoption/ resistance of Board Evaluation Practice.' This Theories in Use (TIU) inquiry turned out to study the social construction process in the corporate boardrooms. The underlying assumptions were that the people interviewed are knowledgeable; they know what they are trying to do, how they are trying to do it and, most importantly, why they are trying to do it (D. Gioia 2021).

The narrative of this discussion is guided by Gioia (2021) to offer theory and make it readable by the practising managers. Therefore, while the academese here covers all the essentials, I have attempted to avoid the overdose that often embeds boredom. Therefore, this discussion attempts to provide meaning to the findings presented above and is followed by two distinct sections where I offer a grounded model (next section: conclusion) and summarize insights for policymakers and practitioners (section 14: Takeaway and Implications).

The two essential ingredients for *eBE* which have surfaced in this research were succinctly put by an interviewee *"I think the Board composition is very material and the chairperson openness is very important for the Board evaluation to be really valuable and useful"*. Before I touch upon the two ingredients established by this research, viz, *Chairperson Competence* (mediating affect) and *Board Culture* (moderating impact), it would be pertinent to discuss the other findings presented in the previous section.

12.1 Plurality of Practice

I discovered widely varying beliefs, practices and levels of adoption of Board Evaluations in India. This picture of plurality reveals at one end, companies give lip service to the Board Evaluations, and at the other are companies which genuinely make efforts to improve.

Basis these interviews, one may not be able to put a number (what is the proportion of companies at either end of the spectrum); this was a purposive sample focused on drawing experts. As with *Expert Sampling*, the respondents were chosen in a non-random manner based on their expertise, and the findings may not be generalizable (Bhattacherjee 2012). However, I suspect, basis my pre-cursor study and other available studies and experience, that the proportion of companies adopting *eBE* is very low. Steinberg (2000) had demonstrated that fewer than 20% of US boards evaluate themselves as a board or appraise the performance of individual directors (Ingley and Van der Walt 2002), indicating a low natural appetite for Board Evaluations. Examples of other contemporary studies/ experiences include

- *"Only one Company (Cipla) made comprehensive disclosure of their board evaluation practice by reporting on all the five elements viz. Criteria considered, Process followed, Favourable outcome, Improvement areas, and Action Plan"* (CimplyFive 2020)
- *"11 companies out of Nifty 50 and Midcap 50 indices have disclosed the result of the board evaluation while eight companies have disclosed the action plan for the board…"* (IiAS 2021)
- *"The NYSE requires directors to perform an annual board performance evaluation. And for many boards, this has become a rote "check-the-box" exercise with little director engagement and no meaningful output. Healthier boards have evolved to a continuing development process where directors use various methods to ensure board usefulness."* (2019, Denise Kuprionis, The Governance Solutions group on a conference board blog)

12.2 Mechanisms and Norms – as proxies of adaptation of Practice

The interviewers' response to the criteria, mechanisms, and norms indicated the tilt on either tick in the box ☑ or eBE the continuum revealing the supporting and hindering practices in aid of *eBE*. The foremost of the giveaways was the theoretical lens that the Board appeared to believe in. The interviews brought alive the arguments made by Mcnulty (2016), 'to develop Board effectiveness, it is important that the performance of tasks associated with the service, control, and resourcing roles of the Board' are met. It became evident during the interviews that the *agency* lens confined the Board evaluation to the hygiene aspects, with little room for genuinely calibrating the internal working or engagement to influence strategic decision processes. It became evident that the tick-box evaluation boards were 'minimalist,' i.e., the non-executive directors' minimal impact on the firm's direction (Pettigrew and Mcnulty 1995). In such Boards, evaluation measurements are limited to the more simplistic and readily identifiable aspects of board performance, ignoring complex but significant elements such as the calibre of directors, their acumen, ethics and strategic ability (Long 2006, citing Ingley). On the other extreme were the Boards, which many have described as 'maximalist' or companies labelled as 'truly board managed'.

A norm that appears universal with Board Evaluations is - a high assessment rating of '4' or '5' on the Likert scale (5 being the best) on almost all evaluation parameters. Some directors felt that such surrender is attributed to Indian culture. Perhaps, they make a valid point if one considers studies pointed out by Hofstede et al. (2010), wherein it was found that the collectivist and the large power distance countries' formal harmony and respect towards others lead to a high degree of acquiescence. Also, a few interviewees highlighted their forthrightness was higher on multinational corporation Boards vis-à-vis Indian companies.

12.3 Temporal effect

Temporally, the corporate governance practice has continued to change over time. As the Boards began to pay more attention to what they do, what used to be a formal and passive institution which rarely came under public scrutiny, came under close monitoring by law enforcement agencies, institutional investors, and media (Forbes and Milliken 1999). The Board Evaluation practice, too, has undergone a shift over the years. The first change is the shift in the Directors' beliefs - from suspicion about the intent of the government and Executive to acceptance that the exercise is primarily a developmental one. IiAS(2021), in a study examining Board Evaluation for the Nifty50 and Nifty Midcap50 companies, found an increase in the degree of adoption between 2017 to 2020. Thirty-eight companies (of 100) improved their disclosure levels on Board Evaluations.

The early years of adoption primarily focus on tick marking whether the composition of the Board and committees comply with the stipulated norms of independence. As the Boards mature, they shift their focus from tick-marking the structural elements to the flow of information. When that too has stabilized as a hygiene aspect, the focus shifts to the *stewardship* role and Board's role as a *resource* (e.g., contributions to strategy and risk mitigation). On Boards with a mature practice, the Board Evaluation focuses on individual directors' contributions and the health of Boardroom dynamics -- aspects seen as a more complex and value-producing part of the board evaluation process, representing the most significant opportunity for improvement by examining roles, contribution and effectiveness of each member (Taylor, Larcker, and Tayan 2017).

12.4 Diffusion of Best Practices

One reality of Indian boardrooms is a tightly knit social network of the Directors across companies. To illustrate, 2.25% of the Director population in India is associated with 42% of the total listed companies, accounting for 65.5% of the total market capitalisation (Prem Sankar, Asokan, and Satheesh Kumar 2015). Further, despite the promulgation of Clause 49 of 2000 by the SEBI (which put restrictions on no of directorships and sought to increase the proportion of IDs), the density of the Indian corporate network almost doubled between 2000 and 2012 (Naudet and Dubost 2017). Such a high interlocking makes the practices and processes noticeable, facilitating the diffusion across Boards through the network of Directors (Prem Sankar, Asokan, and Satheesh Kumar, 2015). Therefore, it is not surprising that Board Evaluation practices are being diffused across companies.

Given the nascency of practice, I assume India is witnessing the innovators/ early adaptors[22] of the *eBE*. And I mention these terms for the 'Board as a unit' and an 'individual director'. Some Boards, e.g., Marico cited earlier, where the Board collective is in the innovator/ early adopter category. In a few cases, an individual director/ NRC Chair/ Chairperson may be the innovator/ early adopter to bring the practice from elsewhere. While Board level adoption seems to be led by the Chairperson, the individual directors becoming early adopters may be attributed to the younger directors joining the Boards with increased awareness about corporate governance and enthusiasm and commitment to the responsibilities in their role as the 'Independent Directors'. Executive Directors were candid in their admission that the best practices and new ideas were brought to their Board by IDs. The change in Indian laws (effective 2023, Directors above 75 years of age or having served two terms on a Board will compulsorily separate, save some exceptions) is likely to see the induction of younger directors. I foresee that it will further aid the propagation of *eBE* practices in Indian Boardrooms.

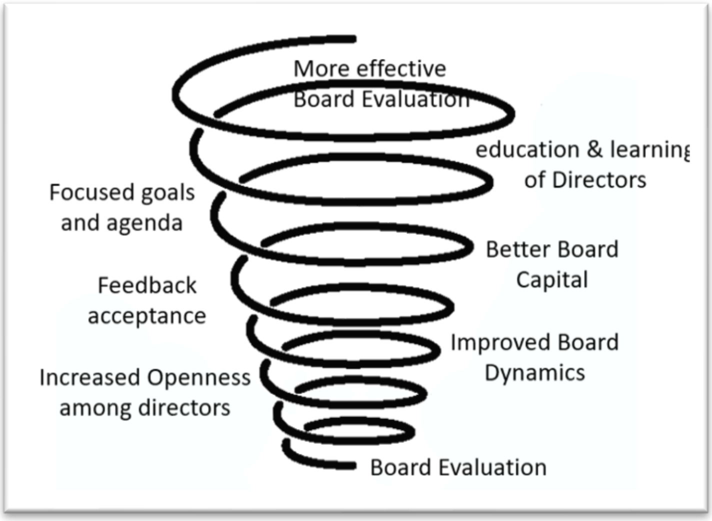
One final point on the diffusion observed is an indication of Directors sensing the usefulness of the Board Evaluation process. For if there were no benefits, they would not have considered the adoption of best practices from others; Rogers refers to it as a 'relative advantage in the innovation, is a sine qua non for adoption' (Greenhalgh et al. 2004). That is the next point in our discussion, i.e., what are the benefits interviewees saw in the BE practice and the insights this study offers.

[22] Framework offered by Everett Rogers, in his seminal Book Diffusion of Innovation

12.5 Benefits of eBE – *Broaden and Build*

A careful review of the interviewees' experiences and opinions reveals a phenomenon that I am describing as Broaden and Build[23]. The temporal effect on the adoption and the diffusion discussed above in 12.3 & 12.4 accentuates the benefits of *eBE*. One of the interviewees reported that the BE discussions led them to recognize the diversity deficit (cognitive) on their Board. They consciously inducted a new director, thereby increasing the Board Capital. Similar to the example of Target Corporation, which starts the year by identifying the top three priorities of the year (Nadler 2004), a Director serving multiple Boards of a conglomerate quipped, *"top three lacunae in every board came to the fore very quickly; the other things are work in progress."*

Some interviewees recognized and acknowledged the impact on Boardroom dynamics, notably greater *inclusivity of diverse Board members* and *increased mindfulness* of one's behaviour. Using the Blake and Mouton framework, a Director stated, *"earlier 9-1s were more dominant, now they are less dominant"*. Another interviewee excitedly shared the progress over three years by saying that the confidentiality around peer feedback has disappeared on their Board. Their erstwhile practice of individual feedback being discussed in private 1-to-1 meetings has paved the way for open discussions about each director in a full Board meeting; an example of a Board shedding their fears and apprehensions (discussed in 12.6), thereby mitigating a cause of reluctance to adopt Board Evaluations. Another interviewee supporting Honest Board evaluations such as these said, *"The forms are of little importance to me. What is much more important is an honest discourse and discussion amongst independent board members about the mandate of the Board; and whether it is carrying out the same. We reflect primarily on that one day in a year, which is immensely valuable."*



Yet another director cited the emergence of the *'Digitalization of Business'* as a priority goal during the BE exercise. Therefore, a voice mentioned earlier (11.5) that described BE as *"a mechanism of self-correction, of raising the bar"* appears credible. What I found during the interviews was echoing the expert voices from the literature cited earlier (2.4) that a good BE has multiple benefits. Further, the discovery that the benefits are inter-related, one feeding into another, thereby triggering a broaden and build phenomenon. I have taken the liberty of speculatively visualizing it as a golden spiral[24].

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[23] A phrase I am borrowing from my exposure to and use of Barbara Fredrickson's theoretical perspective on positive emotions in the field of positive psychology (that I have practiced over past 15 years as a leadership coach and OD consultant). The broaden-and-build theory posits that the positive emotions and are not just the end states but also the means thereby creating a self reinforcing spiral to create psychological growth & well being [American Psychologist, Vol 56(3), Mar, 2001. pp. 218-226]

[24] Golden Spiral phrase inspired by Fibonacci Spiral or Golden Spiral in geometry that is often depicted in positive psychology as an uplifting spiral

12.6 Causes of resistance/ slow pace of adoption

The literature has pointed to the directors' resisting board evaluation due to a lack of preparedness, not being unconvinced about the benefits, and threat to Board cohesiveness damaging the ability of members to work together (Long 2006). A notion of a distraction from the process-oriented requirement with no benefit (Kazanjian 2000),

The multiple views which I heard from the interviewees led me to make an affinity grouping of those voices, and as classified in the findings section, we discuss each of these under:

12.6.1 Fears and apprehensions

Several authors have speculated/ hypothesised multiple causes of reluctance. A compilation of numerous academician/ researchers (Ingley and Van der Walt 2002), includes –

- Makes directors feel ''uncomfortable'' -- distaste for being rated
- They may be opening Pandora's box, revealing sensitive issues (under-performance/
  Incompetence) of the dominant coalition within the board
- The process may disrupt open interaction and the collegiality of the board
- The assessment results may be unreliable
- Experienced senior individuals shouldn't be subject to an assessment, except through the annual vote of shareholders
- They are highly accomplished individuals who may not have been subjected to formal evaluations for years.
- Individual assessment as a director is inappropriate because Board as a team matters (there were similar voices in my interviews, too). Individuals make contributions depending on the issues currently facing a Board
- An effective board is comprised of a mix of competencies and personalities; there is a suspicion that questionnaires or interviews may not adequately reveal the contributions of some board members

Most of the above voices were echoed, in some form, in the interviews I conducted (section 11.6.1). These are the *fears and apprehensions*; a few could be imaginary or projections – in the literature and in what I heard during interviews. I could not find any empirical studies supporting/ contra to findings uncovered during this research. Similarly, *Bloated status* (ego) and *feedback willingness deficit* could be real or projected causes contributing to the resistance to Board Evaluations.

The power distance (hierarchical leader level) affects the behaviours expected, legitimizing the processes by which leaders influence (Liden and Antonakis 2009). An example of this surfaced when an interviewee shared about the Board members being afraid to confront the celebrity CEO/ Chairman. He quipped, *"how many directors would have the guts to stand up to a Mukesh Ambani or a Ratan Tata."* Another instance of power distance impact on an entire Board, where a larger-than-life business leader was the Chairperson, *"A particular acquisition had been debated over several board meetings, but none of the directors took a stance in favour or against. In the face of a reported risk, the chairperson asked, 'is it worthwhile doing this?' Until then, everyone had stayed noncommittal, assuming that their celebrity Chairperson favoured the acquisition. Upon sensing the Chairperson's dispensation, everyone concurred. The Project and the acquisition were killed within half an hour. Afterwards, everyone would say they knew it all along, but the fact was no one dared to speak their mind for six months."*

12.6.2 Bloated Status and self-image

One might wonder how bloated status or "Ego" could be seen to play a part in corporate governance. We are aware of encounters and display our own 'ego' daily. It would be worthwhile to develop a shared understanding to appreciate how this could become a hindrance to Board Evaluations and corporate governance. "Ego" is a *'toxic emotion and ubiquitous menace -- invisible, indescribable and yet perceivable. In turn, the bearer of ego creates a shielding effect to save themselves from becoming vulnerable'* (Mahato 2013). The central idea of this discussion is to recognize its essential nature rather than shun it apprehensively because of its nuisance value.

"When you have very prominent people on your Board, then it's a problem how to handle it," quipped a former CEO and a celebrated leader. He recalled his challenge in dealing with 'bloated staus' independent directors – in all capacities, he has served as a CEO, Chairperson, and fellow director. This industry captain, who has over 48 Board-years[25] of experience (16 years as CEO and 32 years as NED across 8 BSE-500 companies), is known for his humility and unassuming leadership style. Mahato (2013) articulated the challenge he described well: *'on the professional front, the ego-suit encapsulates knowledge and power and gains its self-worth with an experience of achievements.'* In the Stanford survey, of the seven questions elicited to the problem of the Board, the question *"Board member(s) allow the personal or past experience to dominate their perspective"* was agreed to ('somewhat' or 'very much') by 76% of participants (Taylor, Larcker, and Tayan 2017).

In the context of Board Evaluations, the Directors comprise highly accomplished individuals who may not have been subjected to formal evaluations for years (2002 Ingley), triggering their emotions of anxiety and protecting themselves with the shield of 'ego'. As cited earlier, another interviewee described the directors with '9-1 style on Blake and Mouton framework were more dominant.' Of course, he added that after a few years of conscious effort at improving the boardroom dynamics and Board Evaluations undertaken, such directors 'are now less dominant.' Echoing what Mahato (2013) explains, 'ego identity ceases to exist when mentorship analogous to love and trust is undertaken proactively.' A purpose well served by Board Evaluations.

[25] Board-year represents serving one year on one company Board, e.g., a director serving on the Boards of three companies for 5 years would make it 15 Board-years

12.6.3 Feedback willingness deficit

"Feedback is the breakfast of Champions",[26] goes a famous adage. The virtues of feedback have been long argued. The peer review can consider the constructive and less constructive roles individual directors play in discussions, the value and use of various board members' skill sets, interpersonal styles, individuals' preparedness and availability, and directors' initiative and links to critical stakeholders (Sonnenfeld 2002). Although, over the years globally, the assessments have improved (88% of directors believe they have an effective process, 76% say there's sufficient follow-up); however, 67% of the directors say it is difficult, to be frank in the process (PWC 2021). In the Stanford survey, only 26% of participants believed they effectively gave direct, personal, and effective feedback to fellow directors (Taylor, Larcker, and Tayan 2017).

Lack of feedback could be self-destructive. No matter how good a Board is, it's bound to get better if it's reviewed intelligently. Directors who take their duties seriously, and let their fellow directors know they're expected to do the same, are the best insurance (Sonnenfeld 2002) against the tick-in-the-box Boards.

The interviews revealed two sides to this problem

(i) lack of willingness to receive feedback like one of the interviewees shared about the mindset of directors, *"there was surprise & disbelief की अरे अब हमको भी कोई evaluate करेगा (translated – oh now someone will evaluate us!)"* and

(ii) inability/ reluctance to provide feedback, *"doing evaluations of each other is one of the most uncomfortable processes one can do."*

The result of this twin-sided problem can be found in the Stanford survey. Of the 19 dimensions of Board Evaluation measured, the lowest score was on "Gives direct, personal, and constructive feedback to fellow directors" (Taylor, Larcker, and Tayan 2017), presumably displaying the combined effect of both the sides of feedback coin.

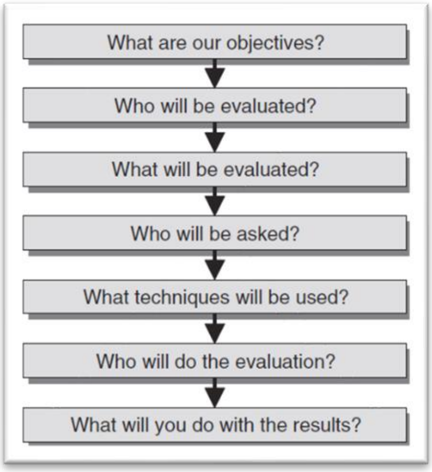
[26]Attributed to Ken Blanchard

12.6.4 Absence of pre-defined goals

In the last three decades, the goal-setting theory of motivation has established the relationship between goals and performance. The most effective performance results are achieved when specific & challenging goals are used to evaluate performance and linked to feedback on results (Lunenburg 2011). The Boards of Directors have been characterized as large, elite, and episodic decision-making groups that face complex strategic tasks and are vulnerable to process losses (Forbes and Milliken 1999). Further, given the limitations of the agency lens and the high topple rate[27], the TMT and Board must work as a multiteam *strategic leadership system*, sharing a superordinate goal that orchestrates them to function interdependently and independently (Luciano, Nahrgang, and Shorpshire 2020).

The need for 'distal' and 'proximal' goals is well established in the literature. It is not uncommon for well-governed companies to make these pronouncements. For example, the annual report of Tata Steel (2020-21) outlines a distal goal 'to become the most valuable and respected steel Company globally, by 2030' supported by proximal goals such as (i) Leadership in India, (ii) Consolidate position as a global cost leader (iii) Attain leadership position in adjacent business and (iv) Leadership in sustainability

In the context of Board Evaluation, the first and foremost question is clarity about the objectives. Kiel and Nicholson (2005) have offered a framework for a successful Board & Director evaluation and advocated reaching an agreement on seven key questions (see inset fig).



Framework for Board-evalauation Kiel and Nicholson (2005)

Given the above theoretical and practitioner backdrop, it was surprising that the grounded interviews yielded only a few references to pursuing goals (refer Annexure 16.6). Since the interviews did not contain specific questions on the 'goals', I examined the published annual reports of a sample of companies before drawing my conclusion.

The core of the Montreal Bank's 'Board and Director assessment program' (cited earlier) was a set of clearly defined *Charter of Expectations* spelling out specific responsibilities of the Board and Individual Directors (Kazanjian 2000). Although most Boards make efforts to showcase espoused values and commitment to the same, these should not be confused with the goals. *The fact that 'integrity' and 'professionalism' were among the official corporate values of the late Enron corporation should be a sufficient warning* (Hofstede 2004). Given that the Boards perform quite an unpredicted, ever-evolving, and ambiguous role, their performance evaluation and feedback must be unambiguous. "Despite well-

[27] Topple Rate -- the likelihood that an industry leader will lose its top position (HBR Mar 2005)

worn maxims like performance appraisal must start at the top, organizations appear to be ignoring their folk wisdom" (Longenecker and Gioia, 1992).

A final discussion reminder -- Boards are not involved in implementation; their "output" is entirely 'cognitive' (Forbes and Milliken 1999) and, therefore, the prime need for superordinate goals. Superordinate Goals are identity-based, have an extended temporal perspective, and entail a broad scope of contexts (Höchli, Brügger, and Messner 2018) – all three parameters of extreme relevance to the Directors committed to good governance.

12.7 Board Composition – an additional antecedent

Before this research, I had undertaken pre-cursor research, a conjecture I held then that 'the structure of Board composition impacts the *eBE*'. Soaked in the agency paradigm, I looked for the answers in the structural elements. That research could not confirm the relationship. At the start of this research, I did not hold any conjecture about the impact of Board composition on *eBE*. Therefore, it surprised me when Board Composition surfaced as a unanimous view of respondents.

The pre-cursor research and interviews reaffirmed that the legal mandate had been the most necessary antecedent for adopting Board Evaluation practice. Our discussion here focuses on the additional antecedent, i.e., the *'Board Composition.'* Most interviewees' voices (11.7.2) indicate a resource-dependence view about the Board of Directors rather than the dominant agency lens. Resource Dependence theorists have argued that the Boards serve their purpose by being "resource-rich" regarding their human and social capital as an indicator of their capability to perform their resource provision role (Tien 2020).

A director with an enviable record of having served on the Boards of multiple entities said, *"Unlike truly independent Boards where a head-hunter helps in the selection of independent directors, in family-managed boards, even the independent Directors are connected to the company. When a promoter finds a bureaucrat helpful in getting their projects sanctioned, it is common to appoint the bureaucrat as an independent Director upon retirement -- a quid pro quo. Such a reward is the norm world over. After that, this director's ethics and values determine the efficacy or otherwise of the Board"* indicating the tendency of dominant shareholders to constitute Boards with little regard for the spirit of good governance.

While an executive director forthrightly shared his expectations from NEDs, *"the kind of cerebral contents he brings to the table, wisdom from his experience, and the contacts (Network), one thing we look for is, can the gentleman further our business interests."* An Independent Director quipped, *"Board Evaluation cannot happen, as is the reality in many Boards if people take the Directorship for their narrow requirements. They contribute Nothing. We must have people who are experts in their domains and also contribute and not just to show up."*

Another interviewee emphasised that the *Diversity of thought* (not just professions and qualifications) contributes to the composition that lends itself to embracing Board Evaluation. *"A higher diversity of thought contributes to an enabling composition; in many places, there is a diversity of professions but a probably similar worldview. And for a complex set of reasons, so far we've not been using it (Board Composition) as a vehicle to improve corporate governance."*

Most interviewees allude to the point that the *Board Capital*[28], consisting of human capital (experience, expertise, reputation) and relational capital (network of ties with external entities), is a pre-requisite for adopting Board Evaluation practice. They conceive of the Board's role as a provider of resources rather than simply being an evaluator of management (Fernandez, Thams, and Lehrer, 2019). Hillman and Dalziel (2003) have argued that the Board Capital affects both the monitoring and provision of resources by the Board of Directors. Extending the argument to a *Strategic Leadership System* comprising of TMTs and Boards, Luciano et al. (2020) have theorized that TMTs and Boards must work independently and interdependently to enhance their group and shared tasks and, in turn, the firm performance. They underscore the relevance of their proposition in turbulent times.

Scholars have advocated the Board Capital view and payoffs for a long time. For example, Continental Airlines, in its quest to fight the battle engulfing its industry, reviewed and reassessed its directors' capabilities such as independence, business credibility, financial expertise, confidence, teamwork, market knowledge etc. paving the way for churn in the Board to augment the Board Capital as per requirement (Nadler 2004).
An example of conscious creation of Board Capital in the Indian context:

> As a member of a few Boards, Harsh Mariwala, the founder and Chairman of Marico, had found relatives and friends as Directors who met primarily to fulfil statutory requirements. For him, the rubber stamp Board was a non-starter. For him, 'It is important to pinpoint different competencies and skill sets to qualify a board member'. For Marico, he identified specific competencies (FMCG Domain knowledge, expertise in a fast-changing retail environment, an HR professional to head NRC, Finance expert with capital market experience and Digital prowess) and then constituted and transformed the Board for the betterment of Marico. (Mariwala and Charan, 2021)

A well-supported hypothesis from the literature is that board capital is positively associated with the firm performance achieved through superior monitoring and resource provision functions (Hillman and Dalziel 2003). Four types of resourcefulness can be said to contribute to the *Board Capital*, viz., (i) advice and counsel on strategic decisions, (ii) being a channel for communication between the firm & external entities, (iii) assisting in obtaining resource commitments from important constituents, and (iv) legitimacy (Pfeffer and Salancik (1978) cited by Hillman and Dalziel, 2003).

Thus, Board Capital is an expansive construct with multiple dimensions involved such as inherent capabilities, dispensations, and outcome expectations. Further, over time, the board composition has evolved from being mainly a dependent variable to much more of an independent variable (Fernandez, Thams, and Lehrer, 2019).

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[28] The ability of board members to perform manager-monitoring activities and to provide advice and counsel to management. The phrase Board Capital has been popularized by those with resource dependence view of corporate governance

Therefore, it is unsurprising that the findings from this study (11.7) point to the primacy of the Board composition in adopting *eBE*. The above discussion and the literature indicate that Board Capital or some parts of it (depending upon how expansive the connotation of the term 'Board Capital') is an 'antecedent' condition for adopting *eBE*. Directors are expected to possess a wide range of capabilities to fulfil an ever-growing range of deliverables. For reasons of parsimony and appropriate attribution, it is essential to develop a construct definition which genuinely represents this antecedent to *eBE*.

I surmise that the 'Director Expertise', commitment, and a degree of true independence lead to *eBE*. The term 'expertise' could have an expansive definition depending upon the outcome expectations. We have discussed earlier that the Boards are not involved in implementation; their "output" is entirely 'cognitive.' Therefore, the Board Capital desired for *eBE* must include *cognitive*, *human*, and *social* abilities combined with *independence*. Each of these terms could have widely varying interpretations. Therefore, we must create a boundary. The most suitable boundary for this shall be the construct definition evolved earlier (section 10). I propose this be termed as BC_e (Board Capital for evaluation) and defined as below

12.7.1 Board Capital-e (BCe) defined

A threshold level of Board Capital entails that
Individually, every Director possesses

- The base-level understanding of the domain(s) served by the corporation
- Knowledge of corporate governance laws, obligations for the Board collective & individual directors, and protocols involved
- Self-awareness and ability to introspect, evaluate self, and peer group
- Willingness and confidence to offer critique and express uninhibitedly
- Ability to cultivate and nurture interdependent relationships within the Board, with TMT, and with other stakeholders
- Commitment to the work ethic[29], thereby meeting the task & relationship demands, willingness to uphold and enhance the credibility of the office of BoD
- Eagerness to keep abreast of the developments in the eco-system impacting the Board functioning and the company's well-being

Collectively the Board shall represent/ bring forward

- Diversity of perspectives, experiences, and thoughts
- Abilities to monitor Management's current performance and guidance on strategy

[29] **Work ethic** is a belief that work and diligence have a moral benefit and an inherent ability, virtue or value to strengthen character and individual abilities. It is a set of values centred on importance of work and manifested by determination or desire to work hard. Social ingrainment of this value is considered to enhance character through hard work that is respective to an individual's field of work. (Wikipedia)

Would a high Board Capital-e (*BCe*) guarantee superior performance or *eBE*? It could depend on the causes of resistance discussed in the previous section (fears, bloated status, resistance to feedback, and not setting the goals). However, I believe the *Chairpersons Competence* and the *Board Culture*, the other two variables discovered during this research, hold the key to that answer. Let's discuss these in the following two sections.

12.8 Chairperson Competence – The mediator

The Chairperson sets the tone of BE process. An eloquent narrative by a Director sums up the importance of a Chairperson's orientation. He confided, *"When the first time it got introduced as part of a requirement, the prefacing from the chair was very disparaging about the entire evaluation process. And this was universally true. Almost apologetic. A Chairman would say, 'look, this is something I need to speak about; it has become a requirement.' There was no need for the chair to be apologetic about having to do BE. Ultimately he has to initiate the whole discussion and say that we'll adopt the process. So, the first time when it got introduced, it was with an apology, and that apology continued."*

Whether it is a defensive stance leading to lip service or seriousness attributed to the initiative resulting in a substantive payoff from Board Evaluation, the mood of the Board is set by the Chairperson. Speaking about the role of Chairperson, an interviewee shared, *"In one of the two instances that I'm aware of* (*eBE*), *it came from non-executive Chairman. He had been the past CEO and one of the early founders. A whisper from him was very loud and had the power of a 100-decibel shout. Everyone agreed and made it into good practice when he suggested it."* Summing up the power and influence enjoyed by Chairpersons, particularly those who are founders or successful former CEOs now in their new Avatar of Chairpersons (Indian Boards, in general, have Chairpersons who are qualified to be in their role like this). A Board Chairman known to have adopted *eBE* shared his preference: "*if you want the Board to be open, to get the benefit of their knowledge and expertise, they should be confident that their voice will be heard. No one will take this in a wrong way."*

Some Chairpersons make conscious efforts to deploy an *eBE* mechanism successfully. A few examples of their action include:

- *"To attract, select, and onboard members. The complicated thing is how one gets complementary competencies on the Board; it means a lot of work the Chairman must do. Sometimes you get complementing skills but not the complementing attitudes leading to harmony deficit, and that's another challenge for the Chairman to manage."*
- *"As a Chairman, I have spent considerable time sharpening the board evaluation process and working hard to bring it to the level it has come to today."*
- *"The Chairman has to draw out the strengths of individual directors, ensure adequate discussion, convince people (Directors), and they come prepared for discussion."*
- *"The Chairman needs to be honest, fair, and critical; then the evaluation comes out well, and many decisions get taken up in the assessment."*
- *"As the Chairman, I ensure that there's team play on the Board; they can argue, fight, and yet have a drink together at the end of the day. When I recognize that each of these guys is valuable to me and I'm building a team, I get the best from them. I have to do something for them to work in sync with each other. Someone has expertise in one area, and another is an expert in a different area; I should be able to get that thing out."*

- *"As the Chairman, I'm spending a few days every month – discussions outside the Board meetings to improve collectively as a Board and in pursuit of supporting the Executive team. Someone is a great Board member and someone not so good. I keep looking for how I can help that person become a better Board member who can still get the same results without rubbing the management the wrong way."*
- *"The Chairman, through one-to-one conversation, not for evaluation, but to oversee things can add value by encouraging members."*
- *"Therefore, a lot depended on Chairman as I heard?*
- *"Peer groups cannot directly give any comments to one another; it impacts the* interpersonal *equations if they openly discuss somebody's strengths and weaknesses. But in a one-to-one situation, Chairman can seek and then collectively provide feedback in a non-threatening manner."*

Thus we see that the characteristics of the Chairperson of the Board determine the extent of *eBE* deployment. Their knowledge, skills, motives, ways of thinking, and acting are evident in the spirit of their Board's deployment of BE practice. Thereby strongly indicating the mediator role played by *Chairperson's Competence*.

Towards defining the construct of *Chairperson's Competence*, it will be good to recall that a Chairperson's de-facto role is to run the Board while the CEO runs the company carrying out the Board's decisions (Pettigrew and Mcnulty 1995) – theorists and practitioners have alignment on this one aspect. GV Prasad[30] said, *"…chair has certain roles, and has to meet those roles. But the chair is a non-playing captain. The captain is the CEO. And the captain and the non-playing Captain should respect each other's roles. When one gets into the shoes of the other, it's not healthy."*

The conventional corporate governance model of shareholder supremacy has often focused on structural elements of Chairperson CEO duality. However, the empirical research on its efficacy has yielded mixed results. An alternative approach envisaged has been the team productivity approach, where the productivity of a board member is the result of their interaction with other Board members. i.e., the effective board performance is driven by the extent to which Directors bring relevant knowledge and its active use. Therefore the competencies and behaviours of the board chairperson are critical to unleashing a board's value-creating potential (Gabrielsson, Huse, and Minichilli 2007).

Irrespective of the lens deployed (CEO duality or otherwise), it is no simple task to unravel the intricate lines of influence and judgement (Pye 2001), requiring a Chairperson to bring forth skill and will to convert the potential power into an 'influence' (Pettigrew and Mcnulty 1995) impacting the environment – be it

[30] GV Prasad, Co-Chairman and Managing Director, Dr Reddy's Laboratories Limited and Board Member, ISB was speaking on February 19, 2021 in a Session on "Building a Global Indian Company : Learnings from the Growth Journey of Dr Reddy's Laboratories Limited"

internal within the Board or interface with CEO or other stakeholders. Robert White (1959) devised the concept of 'competence' as "an organism's capacity to interact effectively with its environment"; that precisely is the demand on a Board's chair. 'A successful board leader needs to be adept at translating the voice of the board to management, and the voice of management to the Board' (Taylor, Larcker, and Tayan 2017).

The concept of 'competency' has evolved and matured. "Competencies are characteristics individuals have and use in appropriate and consistent ways to achieve desired performance. These characteristics include knowledge, skills, aspects of self-image, social motives, traits, thought patterns, mindsets, and the ways of thinking, feeling, and acting" (Dubois and Rothwell 2004).

Leveraging the findings from this study (11.8), the above discussion and insights from the literature, I propose the following definition for the construct:

12.8.1 Defining Chairperson Competence

Characteristics of the Chairperson of a Board used consistently to achieve superior Board performance. It includes knowledge, skills, aspects of self-image, social motives, traits, thought patterns, mindsets, and ways of thinking, feeling, & acting.

12.9 Board Culture – The moderator

Culture is constantly enacted and created by interactions, shaped by leadership and guides, and constrains the behaviour (Schein 2004). The Chairperson's Competence is closely linked to the culture of the Board. Long (2006) had found that "the personality and effectiveness of the chairman, his/her relationship with the CEO, the board agendas, the format and formality of the meetings, and the sharing of information are all cultural influences on board performance and effectiveness." Therefore, discovering Board culture as a moderator shouldn't surprise anyone, given that we found that the Chairperson's competence mediates Board Evaluations.

I had begun this research with a conjecture (Section 6.4) that "There are specific attitudes and dispensations (including the dynamics of the Boardroom and cultural elements) towards Board Evaluation which promote/ prevent the adoption of Practice. Liden and Antonakis (2009) have argued that the values present within a workgroup prescribe how individuals should behave and adherence to these standards indicate the acceptability of each other, and conformance is viewed as more effective. Two different individuals representing separate boards helped me realize their resistance to *eBE* had origins in their shared assumptions. Their voices –

- *"There is a social and cultural aspect to compliance, and you must overcome that, which is not easy. In India, people are very respectful. They have great respect for seniority, age, and prior positions held. There's a lot of reverence and respect. It's too awkward and embarrassing to evaluate somebody like Mr. Premji."*
- *"If we follow the evaluation process professionally, there would be no place for many Board members. Because we are Eastern culture, we don't want to publicly say anything wrong about someone."*

Recently (May 2022), I was addressing the participant directors of a program at IICA wherein a Director confided how the culture of the Board had impacted the styles of successive Chairmen - how directors are seated around the table. The order they speak remains unchanged even after the new Chairman has taken over. This is not an isolated incident. Pye (2001b) reported of an FTSE 100 board 'having very formal meetings which start with a procession into the board room, led by the chairman with directors following in prescribed order such that executives sit one side of the table and non-executives sit the other.' An example of how the Board Evaluation culture continues to survive inside an ever-changing Boardroom, *"…haven't ever questioned the NRC chair on what we are doing, the laid down process that was followed for a few years, I continue to follow after joining the board."* It was a surprise for me to hear this from a veteran Board member and an advocate of good governance about his joining a new Board and its NRC but continuing to succumb to the Board Culture.

It is also established that culture and leadership are two sides of the same coin and that not only do the leaders create & manage culture but also destroy it (an act of ultimate leadership) when it is dysfunctional (Schein 2004). In the context of the above example, there was an opportunity for the new NRC chair to destroy old norms and influence others to follow his convictions.

Given that, in the context of this research, a question arises whether Chairperson competence and Board culture are indeed two distinct variables? The answer is affirmative, for the concept of culture encompasses patterns of thinking, feeling, and acting (Hofstede et al. 2010). As seen in the above example, it has an impact beyond a single leader.

As described earlier, *Boardroom Dynamics*[31] is closely linked to the notion of Board Culture, which encompasses a common language, defines boundaries, distributes power & status, and evolves norms of intimacy and the mechanisms of rewards & punishments. The dominant coalitions influence the dynamics and impact the adoption or otherwise of *eBE*. One director shared, *"Almost all the Boards I served, there is a pecking order. The seniors try to lead; in some, there are also some challengers; most others remain silent. So, ultimately the view of few prevails."* Even in cases where *dominant coalitions* have adopted *eBE*, objectivity and efficiency may get compromised.

When *Executive Management* dominates the Boardroom deliberations, the BE process gets vitiated. A Director cited, *"more than 80-90% of the decisions are brought to Board, not for real review or healthy discussion but because it requires a Board approval"*. In conglomerates, the group companies are managed by the corporate HQs, where participation or influence of group executives (e.g., a group CFO) occurs, the autonomy of the Board suffers, reducing the BE to a tick-in-the-box exercise. Also, a similar impact occurs when the celebrity directors[32] enter the Boardroom. However, a Director who cited multiple examples of the effectiveness and pay-offs from their Board evaluation process described their Board dynamics, *"In MMMM, the chairman participates only 10% of the time, others are more participative. For example, when I present the Financials, everyone (other than Chairperson) would engage, and the chairman would step in if he felt there was too much focus on something singular or if he needed to provide the context. The Board recognizes everybody is critical, and they influence the outcome."*

In the Stanford survey, the question "A subset of directors on our board has an outsized influence on board decisions" was responded in affirmative (agree or strongly agree) by 46% of participants (Taylor, Larcker, and Tayan 2017).

Thus we see that the Board Culture is a set of psychological pre-dispositions developed and shared (Schein cited by Pye, 2001) by Directors over time, leading them to think and act in particular ways. It requires conscious nurturing, destroying, and evolving to address emerging challenges in corporate

[31] In evolving this definition of Boardroom Dynamics, I have primarily been guided by work of Edgar Schein and my understanding of Board functioning

[32] Cases where rather than the competence, the celebrity status of a director is the criteria for being on the Board

governance. Towards that, it aids the Board Evaluation process. A strong indicator that eBE is moderated by the *Board Culture*.

Towards developing a definition of the construct of *Board Culture,* let's review some more literature

Nadler (2004) offers his impressions of a Board culture: "Many boards appear positively antediluvian[33]. The boardroom is dark and richly panelled. A plaque engraved with a member's name adorns each chair. No one argues passionately about anything. Robert's Rules of Order[34] prevail. Those are just some visible artefacts of traditional board culture — a huge obstacle to directors seeking greater engagement."

If the impression has continued to stick, not just in HBR pages 20 years ago but even currently, it is because increasingly, the quality of interactions in Boardrooms are suboptimal when determining the fate of corporations and sometimes that of humanity. Traditionally, analyses of board dynamics focused on the individual director's demographic attributes, personality, and emotional and cultural intelligence. While these are important, a board is primarily a high-performance work group and a social institution (Cossin 2020). Therefore, understanding the culture of a board as a team and the group dynamics at play would help unravel the efficacy of mechanisms deployed by Boards to exert power and influence towards good governance.

Edgar H Schein[35] has offered a contemporary definition of the culture of a group as "the accumulated shared learning of that group as it solves its problems of external adaptation and internal integration; which has worked well enough to be considered valid and, therefore, to be taught to new members as the correct way to perceive, think, feel, and behave in relation to those problems. This accumulated learning is a pattern or system of beliefs, values, and behavioural norms that come to be taken for granted as basic assumptions and eventually drop out of awareness." (2017, Edgar Schein, Organizational Culture and Leadership, 5th edition)

The Board culture guides and constrains the behaviour of Board members; it is practised by the current Directors and learnt by new members as an appropriate way to perceive, think, and act. It is a system of informal, unwritten, yet powerful norms derived from shared values that influence behaviour affecting Boards (Nadler 2004). An example of how a Board can consciously shape culture is narrated by Harsh Mariwala, the founder and Chairman of Marico

> Rajeev Bakshi joined the board and observed that Board discussions reviewed the past performance and did not tackle forward-looking issues of strategy and

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33 antediluvian (adj.) -- of or belonging to the time before the biblical flood; ridiculously old-fashioned

34 Robert's Rules of Order - used more generically in the USA to refer to parliamentary procedure… to assist an assembly to accomplish the work for which it was designed ... Where there is no law ... there is the least of real liberty

35 For more than 50 years, Edgar H. Schein, the Sloan Fellows Professor of Management Emeritus, has creatively shaped management and organizational scholarship and practice. Author of 15 books, including Process Consultation Revisited, Organizational Culture and Leadership, Career Anchors, Organizational Psychology, Career Dynamics, and Helping, as well as numerous articles in academic and professional journals. Novelty, clarity, and relevance have always been the guiding principles of his work. (Academy of Management commenting about Ed Schein in Learning & Education vol. 10, #1)

> corporate development… Five independent directors had very different styles …each one addressed topics only in their area of expertise … One individual dominated many discussions
>
> To have a board work as a source of competitive advantage, they needed to create a board culture. A culture that (i) promotes openness and transparency, (ii) facilitates and airs opposing viewpoints, (iii) ensures that the board gets the truth from the management, not partial answers, and (iv) engages members in improving the company collectively and individually. (Mariwala and Charan 2021)

A closely related and mutually impacting concept with organizational culture is group dynamics. Defined as "the internal and external forces that affect processes and outcomes in groups", it consists of communication, interpersonal attraction & cohesion, social integration and group development (Rossmann 2012). Unarguably, all elements are essential for Board performance. For this research, I have assumed group dynamics to be a subset of Board Culture.

Leveraging the findings from this study (11.9), the above discussion and insights from the literature, I propose the following definition for the construct:

12.9.1 Defining Board Culture

The structures, routines, and norms practised by the Directors of a Board. Board Culture helps sustain mutuality & cohesiveness and deploy power to influence stakeholders. It includes the basic assumptions[36] shared by members to adapt to external forces and resolve their internal differences.

[36] **Basic Assumptions** – Culture is not an overt behaviour or visible artefacts or not even the articulated philosophy/ values but the assumption which lie behind those (Edgar Schein in 'The Role of the founder in the creation of Organizational Culture)

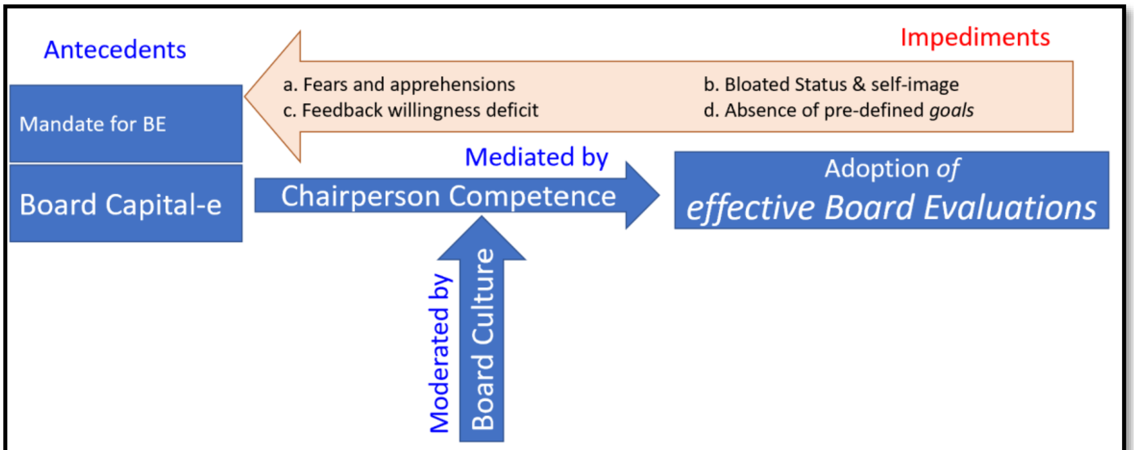
13 Conclusion

Amidst the current debates on corporate governance and the new intensity of climate change, income inequality, and digitalization sweeping the globe (World Bank, 2021), continued dependence on agency theory is excessively narrow, ignoring the complexities (Christopher 2010) involved in corporate governance. Further, the unhealthy short-termism pursued by executive management and shareholders pushes up the risks associated with a firm's sustainability. Therefore, the role of the Board of Directors as an institutional mechanism is even more indelible than ever before. The potential costs can be reduced by a Board of Directors exercising *decision control* (Mcnulty 2016), which, in turn, can be achieved through the Board Evaluations – a mechanism to improve the decision control abilities of a Board.

However, *What approach should be used for board evaluations?' 'What factors could be used to ensure the objectivity of board evaluations?'* and *'How to obtain the information on board evaluations?* The answers to these questions raised 70 years ago (Blair 1950) have continued to elude the Corporate Governance practice. At one level, there's evidence that the Board self-evaluation acts as an insurance in times of crisis; at the same time, sceptics have argued about an insufficient link between board evaluation and effectiveness (Ingley and Van der Walt 2002).

This research has not only empirically reaffirmed the benefits which arise from Board Evaluations but attempted to study the under-the-hood phenomenon of Board functioning. In the process, we have uncovered a few answers.

Through this research, the mediator role of the *Chairperson Competence* and the moderating role of *Board Culture* for *eBE* has been established. Further, using the grounded theory approach, I have identified four significant inhibitors to the adoption of Board Evaluation practice by uncovering the social constructs of Directors. I believe these findings lend credence to implicit theories in the making (D. Gioia 2021). A visual representation of the *'Framework for effective Board Evaluations'* is given under:



Framework for *effective Board Evaluations (eFE)*

I believe the theoretical framework presents the Corporate Governance scholars, policymakers, and practitioners with a contemporary framework to grow the practice of Board Evaluations further.

13.1 Propositions offered

P1: The Board Capital-e (BCe) is an antecedent for *eBE*.

P2: *Chairperson Competence* mediates adoption of eBE.

P3: *Board Culture* moderates the adoption of *eBE.*

P4: The adaptation of *eBE* is a valuable proxy indicator of a *Board Chairperson's competence* and the *culture of a Board*.

P5: *eBE* contributes to 'good corporate governance'.

eBE → effective Board Evaluation

14 Takeaway & Implications

It has been a humbling journey to

- Spend three years of study focused on corporate governance & Board Evaluations on the bedrock of contemporary interdisciplinary Management practices
- Have the privilege of conducting the grounded inquiry with the Indian corporate audience comprising of few of the sharpest minds and most successful industry captains
- To learn multiple theories and models from a few of the best faculty from across the globe at ISB

I would feel incomplete without taking the liberty to offer key takeaway and implications for the practitioners – the essence of the EFPM program at ISB.

14.1 For Practitioners

"A corporate board is no longer a legal formality. It is a competitive necessity. The board is a source of competitive advantage. Boards must get to work. For a majority of boards, the relevant question is: how can we make a good CEO perform better? Improving managerial judgements is the new frontier for boards," advocates Prof. Ram Charan (Mariwala and Charan 2021).

The real challenge for directors isn't regulatory compliance – it's the *high performance* (Nadler 2004). Academics, policymakers, and industry experts have seen the solution to this challenge in the Board Evaluations. I share the observation made by Sonny Iqbaal, partner at Egon Zehnder -- 'As boards become more comfortable in regular evaluations and adopt a continuous improvement mindset, they can unlock many new opportunities for their companies, their shareholders and their management to flourish'(IiAS 2021). Towards uplifting the Boardroom performance, the following salient points from this research will serve as insights/ action pointers for the benefit of practitioners, viz., Chairpersons, Chairs of the NRC, the Directors serving on the Boards, and key managerial personnel engaged with corporate governance.

14.1.1 Recommendations for Founders/ Controlling shareholders

The Promoters of enterprises[37] and Executive Chairpersons will do well to recognize that the proper long-term protection of their interests lies in good corporate governance (a much-cliched term). Therefore, first a reminder, in business, as in families, overly permissive parenting is often blamed for egregious misbehaviour due to some Boards being too passive, too indulgent or flat-out to developments around them (Nadler 2004). And by the long-term, one must genuinely think about the long-term. GV Prasad[38], speaking about Dr Reddy's inspiration and purpose, shared their meeting Dr Frank Haverkamp of Merck KG, a member of the 11th generation of the family that owns 75% of Merck. It inspired Dr Reddy (founder) to visualise the company's sustainability for 500 years. The founder's wish *'I want to be Merck',* and the purpose of 'good health' has led to the governance practices. He said, *"It's a public company. It may have a dominant family shareholding, but it's not family-owned. The moment you list, you have obligations beyond your family. We try to create increasing value for all stakeholders. Guided by this principle, we realized good governance is not just for public consumption; it is very good for the company. It attracts the best talent, and you get a great board. Good talented board members have many choices. If you want to use your board as a resource for guiding your strategy and helping you through contentious issues, then (remember) no self-respecting board member would join a company that is not fully committed to good governance. So I don't see this as a virtue; it's an obligation to run a company."*

Echoing GV Prasad, one of the interviewee directors said, *"That moral ground or selflessness or absence of greed and selfishness is an essential plank of culture building, especially at the Board."*

For many companies, Boards continue to exist as a "minimalist" – i.e., in which the power is concentrated in the Executive with Board acting as a mere rubber-stamp (Soobaroyen and Mahadeo 2012). The promoters swing to leverage the Board's capability only during times of crisis. External pressures should not be the only force to draw non-executive directors into sustained involvement (Mcnulty 2016). Instead, the controlling shareholders should proactively engage their Boards to become "maximalists" by widely dispersing power and better information flows, thereby enabling the non-executive directors to exercise influence (Soobaroyen and Mahadeo 2012). Indeed it's not easy. As GV Prasad shared, *"It's not easy to have a powerful board. They can be very demanding. Yes. It's striking a balance between meeting the demands of an awful board*

[37] In India, the proportion of companies where promoters hold more than 50% stake has increased from 56% in 2001 to 66% in 2018. In contrast, the aggregate average ownership held by private corporations and strategic individuals in listed companies in the US is 6%, while it is 12% in the UK, and the institutional shareholding in the US is 80%, and for UK companies it is 68%. So, it is still a long way before we can really underplay the role of promoters in the Indian market.(https://www.oecd.org/corporate/ownership-structure-listed-companies-india.pdf)

[38] GV Prasad, Co-Chairman and Managing Director, Dr Reddy's Laboratories Limited and Board Member, ISB was speaking on February 19, 2021 in a Session on "Building a Global Indian Company : Learnings from the Growth Journey of Dr Reddy's Laboratories Limited"

versus running a company. We've learned over the years that having a great board which works well together is built on trust with the management."

The composition of the Board as an antecedent for *eBE* in this study is a pointer for the promoters/ controlling shareholders not to let the 'convenience and familiarity make 'competence' a prey. A medley of a few voices cited in this report should serve as a good reminder, *"critical to the success is the right selection of board members …look at how members are chosen. Are they really chosen for their ability to contribute? Ability to be independent? Ability to see the future?* Or because they are *ex-bureaucrats…* The selection must entail *investigating how well they can challenge* (status quo) *and how well they integrate …it is crucial to have board members who complement each other …diversity in terms of background, approach, and domain knowledge…"*

(Cossin 2020) has reminded that an inflated sense of Board's power, closed-mindedness, pressures toward uniformity and unanimity, suppressing dissent, or framing dissent as disloyal could be the biggest deterrents to good governance. He advocates that 'contained conflict'[39] is a productive platform to clarify individual perceptions and objectives; and allows board members to feel strong by making themselves vulnerable, enabling directors to further their technical knowledge, cultural awareness, and political sense. Therefore, the promoters' choice of selecting a Board and chairperson must be a conscious & well-thought decision. An interviewee emphasised, *"Many of these people who chair Boards are highly visible, and any capability can be brought in by them on the strength of their reputation and linkages. What is not obvious is that a loyalist's loyalty has the premium, and the capability as hand baggage may be a very dangerous mixture."*

Although many promoters would view the corporate governance reforms as an imposition, they must consider the Board Evaluation introduction as a catalyst. Indeed, it is far harder to clean house than tidy up, but the rewards are proportionately greater in building an ambitious board (Nadler 2004). A journey initiated by companies such as Marico, Dr Reddys, Cipla, Axis Bank and many more.

[39] Conflict as a phenomenon has been not dealt with in this research. There are multiple perspectives available in literature.
The notion of 'contained conflicet' by cossin is to be seen as one which is functional.
"Challenge, scrutiny and robust debate can lead to disagreement, tension and conflict in the boardrooms, where tension and conflict are not only inevitable, but also play an essential part in effective boards. …It is only by understanding and embracing this process, they tell us, that the best possible decisions can be reached. …Effective boards should be places of harmony and collaboration as well as challenge and independence. Boards ideally act as environments in which each individual member can respect and incorporate the views of others and, when necessary, retain their independence and challenge fundamental assumptions. …Boardrooms would be far less effective places without a degree of constructive tension. Both the management oversight and decision-making roles of the board benefit from an atmosphere of constructive challenge and the freely-expressed views of board members. If NEDs are to hold management to account, they must not be shy about expressing their views, testing assumptions or challenging groupthink" (2017, Prof Kakabadse in the report for ICSI UK, *Conflict and Tension in the Boardroom -- How managing disagreement improves board dynamics);* last accessed 3rd July 2022 at https://www.researchgate.net/publication/348814549_Conflict_and_Tension_in_the_Boardroom)

14.1.2 Recommendations for Chairpersons

Scholars have highlighted Chairperson's importance for corporate governance, e.g., "effectiveness can be hugely enhanced or hugely destroyed by the Chairman . . . chairmen can be major destroyers or major value adders to the effectiveness of non-executive directors" (Pye 2001). Further, it has been pointed out that what is and is not acceptable behaviour by a non-executive director primarily lies with the Chairperson. An interviewee echoed this, *"In most cases (in India), the promoter group appoints the Chairman. So, the स्त्रोत (origin) of governance actually starts from there [Chairman] and not the CEO, because governance and compliance is part of a Board's responsibilities."*

The finding that 'Chairperson competence' has a mediating effect on *eBE*, is a reminder of what scholars have already established regarding the role of the Chairperson's efficacy in corporate governance.

Recommendation **#1: Continuously hone the saw** through knowledge, skills, aspects of self-image, social motives, traits, thought patterns, mindset, and ways of thinking, feeling, & acting.

> It is a demanding job to be a Chairperson (non-executive, more so), entailing a rigour to prepare themselves. Upon being nudged, one Chairperson at the forefront of corporate governance advocacy and the Chair of two listed companies, *"I make the difference, not by any shortcuts, but by the long route of self-education, continuous self-learning, changing and enhancing my perspectives. I read extensively from international literature from websites all over the world. My morning starts with FT and Future Loop, and whatever comes through the McKinsey's are the day's must-reads for me. Without that, you don't have an infrastructure of thinking."*
>
> A celebrated industry captain commented about another prolific figure who was his non-executive chairperson when he was the CEO, *"He is probably in the top three or four in the country... he is not somebody who boasts about it elsewhere or wants to get featured in magazines. He is outstanding."*

Recommendation **#2: Set clear goals** and stay on top of Board agendas.

> As cited earlier, espoused values and commitment should not be confused with the goals. *The fact that 'integrity' and 'professionalism' were among the official corporate values of the late Enron corporation should be a sufficient warning* (Hofstede 2004) to the Chairpersons that they must look for concreteness in the Board goals.
>
> Generally, Chairpersons leave the agenda fixing to the secretarial team and often, the Executive fills the time with what they find convenient. Agenda management may sound like a mundane subject, but it dictates what the board discusses; To control the agenda is to control the Board's work (Nadler 2004) in support of goals.

Recommendation **#3:** **Consciously nurture, destroy, and evolve Board culture** to address the emerging challenges and leverage the capabilities of members.

Culture develops over time and tends to reward those who perpetuate it, making it difficult to change. (Nadler 2004) The Chairperson must discard the culture when it turns dysfunctional (Schein 2004). Therefore, this is one area where the buck truly stops with the Chairperson. Sometimes an enabling culture could mean creating opportunities to make and foster Positive Relationships in the Boardroom, making them feel valued, cared for, and appreciated making them more authentic, productive and engaged (Kahn 2007, cited by Rossmann, 2012). Cossin (2020) advocates, 'politics in Boardroom means members are involved, and there is a struggle for limited resources; necessarily material or financial, or even power, but seeking attention, respect and be heard (Cossin 2020).

A Board Chairman whom I admire shared his role in shaping culture *"when you think of the Board as one group of people driving value for the organization, and each one's contribution is important. Then, irrespective of their expertise, you want to bring the best out of the discussions. Draw out people to give their opinions, their positive and negative assessments and sometimes encourage them to debate and disagree freely. That improves considerably, the openness in the Board environment."* Another Chairman shared his secret sauce for creating an enabling culture, *"Keep a pulse on whether everybody has the freedom to contribute, without feeling constrained at all."*

An additional payoff of the above would be a Distributed Leadership attitude, wherein members of the Board see each other as experts in their own right -- sources of knowledge, experience, and wisdom (Rossmann 2012). In turn, creating an environment where every member of the Board is uninhibited in contributing.

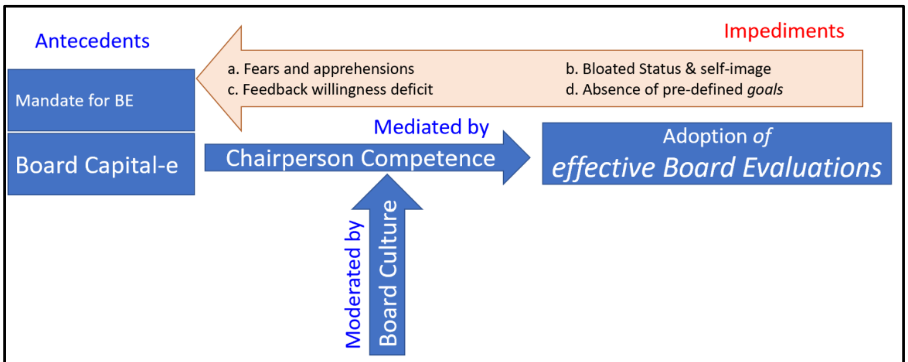
Recommendation **#4:** **Create an environment for *eBE***. Besides taking the initiative to signal its seriousness and being a role model, consciously create an environment and encourage candid feedback.

In a UCLA survey of more than 300 independent directors of over 200 large corporations, one recurring point was the importance of regular Board self-assessment (Nadler 2004). A Chairperson must ensure Board Evaluation with an appropriate mechanism (a third party, if required) to mitigate a voice often heard in interviews *"while the process is confidential, it is porous. The evaluation papers go through the NRC Chairman, to Board, and ultimately to the Secretary for storage and archives and always leaks."* The Chairpersons and NRC Chairs need to avoid the temptation to breach any confidentiality and anonymity promise made to the Board members. One well-respected director said, *"I always was doubtful whether these scores are truly confidential. I've always wondered and never had the answer. Even when a third party did the survey, we were promised confidentiality. I distinctly got a suspicion that the arm twisting had been done, and the intermediary had been forced to reveal who had given a score of one and two on certain dimensions. The nature of discussions that took place in the boardroom made it clear. That is a big practical hindrance to receiving honest feedback."*

14.1.3 Recommendations for Directors

Board evaluations can fuel every director's individual growth, enhance their influence quotient, and improve the Board's contribution to long-term performance. As cited earlier, the benefits of an *eBE* trigger the *'broaden and build'* payoff for the Boards and individual directors. A few pointers emerging from this research are worth recapping for the use of individual Directors, mainly IDs.

Keeping in view the discovery made in this research (pl refer to diagram), I recommend the following



Framework for *effective Board Evaluations (eFE)*

Recommendation **#1** – **Build/ hone your capability to be a valuable part of Board Capital**. The days of Boards of Directors serving an ornamental or ceremonial position are over. Each Director brings KASO[40] (specific **k**nowledge, **s**kills, **a**bilities, and **o**ther characteristics to the Board), collectively forming Board Capital. You get three capabilities to the Board: Task-specific, Team-generic, and Firm-specific. Without cultivating and nurturing your abilities, one cannot expect a meaningful place on the Boards. Increasingly Boards provide institutional stability to companies, keep oversight on strategy and risks, and often serve as mentors and role models to the executive team. Implying that you need to develop competencies in all three dimensions

Recommendation **#2** – **Create Psychological safety, first for oneself and then for other Board members.** Towards this, you must

- Shed the inhibition to freely voice opinions, preferences, and judgements in the Boardroom and other peer group discussions.
  - Remember, you are no longer in a rat race to please others. Your traditional obsessions of success, taking action, fitting in, and relying on experts do not befit the role and stature of a Director.
  - The power distance vis-à-vis others can be reduced by recognizing and leveraging own power
- Proactively seek feedback; Board evaluations present an excellent opportunity to give and receive feedback and objectively evaluate Board functioning. Prove that a voice I heard during interviews does not refer to you, *"Although the process, methodology, and content have stabilized, many directors feel shy to give an objective assessment."*
- Become more self-aware, particularly if the power distance in your Boardroom overwhelms you. A director who may have been overwhelmed, at times, shared, *"how many directors would have the guts to stand up to a Mukesh Ambani or a Ratan Tata."* Another confided, *"To my mind, you don't want to disturb the*

[40] A Capability-based view of Boards: A New Conceptual Framework for Board Governance, Academy of Management Perspectives, 2021, Vol. 35, No. 1, 123–141.

dynamics of the board. All of them are accomplished people. It's actually silly trying to evaluate", concerning his unwillingness to evaluate peer members during the Board Evaluation exercise. You also need to become self-aware if you are one I heard about, *"Board had heavy weights with egos. The thought of being evaluated was disconcerting to them"* an element of humility will help you.

Recommendation **#3** **– Achieve goal clarity** for yourself and the Board – the distal and the proximal goal clarity. The distal or superordinate goals are identity-based, have an extended temporal perspective, and entail a broad scope of contexts. Alice's "If you don't know where you're going, any road will take you there"[41] should serve as a good reminder about the importance of goals. Therefore, you must

- Make sure that you and the entire Board know the firm's long-term direction — and clarify how the Board will contribute. Though essential, the compliance role is only a tiny part of your responsibilities and stakeholder expectations.
- Your tasks include monitoring performance, advising the CEO, and providing connections with a broader world to make a robust team of Board of Directors; who know how to ferret out the truth, challenge one another, and even have a good fight now and then.' (Sonnenfeld 2002)
- Play an active role in the agenda-setting for the Board

  At many companies, directors routinely endure a parade of precisely scripted presentations, occasionally followed by perfunctory discussion and the inevitable vote to ratify management's recommendations. CEOs, if so inclined, can overload the agenda with so many show-and-tell segments that they crowd out serious questions, troublesome concerns, or authentic debate. (Nadler 2004).

Recommendation **#4** **– Contribute to the creation of an enabling Board Culture**. The start point for this is your awareness of and the recognition of Board culture and boardroom dynamics. An interviewee shared with a lot of pride, *"DNA accountability for and the culture of never compromising on the governance aspects"* helped their Board set an example adopted across the conglomerate. Remember your task, along with that of the Board Chairperson, is to destroy those norms which have become dysfunctional and seek the ones which help you grow and fulfil the Board's promise to stakeholders. Towards this,

- Ask questions and confront

  In the face of an individual's intention, the cultural context and norms can melt. Often the trigger of good governance lies with a single Director, as I heard in an example of a company majority-owned by European investors with a Non-executive Chairman (a European) at the helm. In one of the Board meetings, when the CEO attempted to pass a post facto decision without discussion, citing a prior approval of the Chairman, this ID confronted by reminding them, *"A non-Executive Chairman doesn't have any power than a Director outside the board. I object to that process, not that particular decision. If you want anything to be done urgently, you should wait till the next board meeting or convene an emergency board meeting or a circular resolution. Let us make our*

[41] This oft-cited quote is from the Lewis Carroll's classic children's tale, Alice in Wonderland.

processes robust." This courage to stay true to governance processes by him is an example that led to defining a culture that has continued to be the hallmark of their processes and added immense pride to this Director's persona.

Asking questions is at the heart of a Director's role that contributes to a culture enabling the Board Evaluation. When a company is in crisis, turmoil, or bad times, it presents an opportunity to be exploited by the Non-Executive Directors. Steering a weak company through bad times gives them a platform to assert themselves more credibly (Pettigrew and Mcnulty 1995). It enables norms in the Board to uphold the spirit of the law and break free of *managerial hegemony*. Also, it effectively integrates the individual action into a coherent whole impacting the group output" (Felps, Mitchell, & Byington, cited by (Rossmann, 2012)

- Shed the inhibition to distinguish between different levels of performance among your peer group (say during annual board evaluation) or that of executive teams. Being forthright in giving feedback is your moral responsibility. It will help if you overcome your limiting thoughts like the one shared by an interviewee, *"I am probably not doing enough justice in the first place, so I hesitate to pass any strong judgment."* He was describing his hesitation to evaluate his peer group.

14.2 For Policymakers

For at least 30 years, and with growing intensity through recurring corporate governance crises, public policy in many countries has encouraged boards of directors to undertake regular evaluations (B. D. Nordberg and Booth 2019). The Indian story is five years old; SEBI issued the first detailed guidelines in 2017. It appears difficult for policymakers to balance mandating a behaviour and granting autonomy. The voices heard during these interviews may be seen as the industry's voice, and feedback on the Board Evaluation mandates promulgated by SEBI.

The role of Government and policymakers in strengthening corporate governance was seen to be positive and contributory. One director summed up the sentiment in the Boardrooms, *"The days of independent directors coming on Boards to have tea, coffee, good lunch, and staying the night in a lovely hotel are gone. If you (Director) don't get into the nitty-gritty of the company's workings, and something goes wrong, you're finished. The rules and guidelines driven by the government, on the role of the Board, that of Chairman, and independent directors have forced us to make sure that we do a good job."*

Similarly, introducing Board Evaluations is applauded by several Board members. Voices of accolades and appreciation include:

- *"I think it* (mandating Board Evaluations) *is a good thing. Boards are beginning to understand their onerous responsibilities. And also how much more they can contribute to the company's wellbeing. These essential elements' awareness is due to this process."*
- *"I think it's necessary. I do not believe that this is being thrust on us. It is necessary and a good that it happened."*
- *"The change in regulation did have a spurring effect* (on better performance of Boards)*."*

However, there are voices which remind us that if the policymakers obsess with more rules, then it may be counter-productive

- *"In India, we are still learning, growing, and at the bottom of the heap with a long road ahead. Therefore, I like some rules. But I like the freedom. I don't want my freedom to be curbed."*
- *"My only fear is that the government should not come down with stipulations as to how it should be done, what should be done, what are the outcomes, and how it should be reported? Because then it will become ridiculous. I think it should be left to the Boards to understand how best to do it."*

Therefore, it was not surprising to notice the Directors' displeasure at the 2018 SEBI rules requiring more disclosures on Board Evaluation. These rules require specific observations of board evaluation, action-taken on the previous year's observations and proposed actions basis the current year's Board Evaluations. A director voiced that more rules by the Govt to regulate Boards do not augur well. Citing an example of the CSR mandates, he said, *"If you compare the CSR regulation, by doing that, what could have been a very passion-driven* *assignment for the Company/ Boards has now become one more tick box which has to be reported back to the Boards/ government."* Another director argued, *"I think where the Board Evaluation process is, it must be allowed to mature. The current mandate does force the companies to take action. However, intervention like that in CSR, where the Corporate Affairs Ministry came up with draconian rules to hold Board liable, does not help. In this case* (Board Evaluation)*, a simple statement sought from Chairperson will keep accountability high. If forced, companies provide a cosmetic summary that doesn't help, nor do the rules like independent directors certification help. Let the mandate be as it is - like in the western part of the world, the board evaluation is an integral part of corporate governance."*

The policymakers, like academics, run the risk of carrying assumptions removed from the ground reality, committing the error that academics make – of thinking that the organizations obeyed "laws" similar to physical systems (D. Gioia 2021). While the Indian policymakers' intention appears to be to make corporate governance norms more open, however, through multiple rules, they may be blind to the corporate governance paradox. Pye (2001), who uncovered the paradox, found that the more the pressure for openness, the greater the covert ``back-stage'' dramas. These backroom manoeuvres impact the flow & quality of information and authenticity, triggering the vicious cycle of Boards resisting to be more closely evaluated. Policymakers will serve their cause better by heading to the following voices:

- *"Getting good, effective, impartial, independent directors who are not conflicted and match the requirements is very difficult. It's a very small pool to choose from. If then (Govt) imposes various restrictions, why would they join?"*
- *"The government does not understand the reality at all... the counter-productivity of compliance fear, asking directors to take exams on textbookish knowledge defeats the very purpose."*
- *"Members evaluate themselves, not just numerical rating but a more qualitative conscious evaluation that may not be regulated but is a good practice."* Reminding that the rules cannot force an *eBE*
- *"Every independent director is on multiple committees."* Reminding about regulation overload on Independent Directors and that more rules generate more tick-box behaviour.
- *"Unless one is a crook and very few independent directors are, they have gone through a lot of things to reach Board positions and are not paid crores of rupees. Small sitting fees and other fees are their compensation. They don't want to sully their reputation. We try our best to ensure things are right in the Boards we serve."* Voice of a veteran industry captain who has served across government-run and private Boards.

One voice pointed to the overload due to frequent updates in rules by SEBI, MOC, and other bodies. He said, *"..various government ministries continuously change their policy... not only we, but even the companies also find it difficult to keep track about those things... we ask statutory auditors to update us on what is the latest... no other Institution available in the country today to tell us, directors, what is the latest."* Another one lent credence to this concern by *"How to keep abreast of the everchanging statute. Companies Act and the SEBI rules,* *every week something changes, we may miss...".* In an era where *"Life of an independent director is a very difficult one. If things go wrong, besides newspapers (maligning), even courts look (suspiciously) to independent directors".*

The inference from the voices shared above invites the policymakers to appreciate the positive payoffs of a principle-based mandate for Board Evaluations rather than a tendency to formulate more rules. It has been argued that when regulations force increased disclosures, the form takes precedence over the substance, and symbolism & manipulations become integral to the process (B. D. Nordberg and Booth 2019), leading to tick-box behaviours.

I conclude that policymakers' fixation on fraudulent behaviour and/ or lack of faith & trust in Boards leads to a vicious cycle characterized by (i) more rules which produce the currency of tick box dispensation and (ii) mandated public disclosures yielding window-dressed pronouncements and (iii) undermining of even the enlightened boards and alert minority shareholders. It is time policymakers recognize that the 'stewardship responsibilities' for Boards are here to stay. Their obsession with agency conflict fails to recognize the enlightened Boards evident in a voice, *"as against the retired CEOs who were joining Boards earlier, several CXOs at their career peak are joining Boards... they read a lot, exchange notes with their peers and are more conscious of their responsibilities. They're closer to their stakeholders and are more realistic in the relationship with employees, customers, society, environment and shareholders."*

Such obsession with *agency conflict* has confined the corporate governance reform to structural elements of board independence and over-emphasis on the control role of non-executive directors. 'Doubts exist regarding the efficacy of agency theory and its associated prescriptions. Reviews of the literature show a poor linkage between structural characteristics (proxies of board independence) to board outcomes and performance' (Mcnulty 2016).

Public Sector Undertakings – a few voices from interviewees

Few interviewees expressed displaeasure that the policymakers could have made PSUs to role model the Board Evaluations practice. Few were upset ar the PSU approach; an interviewee said, "*I don't think anybody can come from outside and do our job. The funny part is that these don't seem to apply to government companies."* A few other voices heard regarding PSUs:

- *"In any public sector company, a Joint Secretary/ Deputy Secretary GOI is on the Board they bring in what the government wants... whatever these companies do have a relation to the political will... "*
- *"The public sector needs tremendous correction. I am very disappointed that SEBI has not taken a harsh view against listed public sector companies. It is against the interest of minority shareholders that corporate governance rules are not enforced so far as the public sector is concerned. There is no reason to show them leniency on any count."*
- *"PSUs are also family-owned companies. They won't particularly like board evaluation. The Joint Secretary, nominated by the government, run the show on the board. ...As an independent director, I would rate him very poor because he does not let anybody talk, and his decision is final..."*
- *"When the government is uncertain about what it wants or has no interest, good decisions are made in the public sector boards, if the independent directors are sensible."*
- *"Rent-seeking*[1] *is as rampant in the public sector as the dominant shareholder in the private sector; there is no difference between the two."*
- *"In such situations, more objective analysis happens, and independent directors can influence the decision in a manner which is good for the organization, and they can play a much bigger stewardship role."*
- *"They* [public companies] *are getting away with murder because they think there is no accountability."*

Western countries have been guiding role models for Indian policymakers. The post-1991 years marked by continuous attempts at reforming the Companies Act were strongly inspired by the British Cadbury report (Naudet and Dubost 2017). Examples of changes inspired by the Anglo-American model include SEBI's clause 49 of 2000, which stipulated 50% IDs on companies with an Executive Chairperson and minimum 1/3rd strength of IDs for companies headed by a Non-executive Chairperson. Other changes, based on western footprints, include extending the scope of independent directors, tightening their criteria, introducing audit committees, imposing an age restriction on directors, restricting the formation of pyramids, etc. (Rao and Guha cited by Naudet & Dubost, 2017).

While taking a leaf from developed economies has raised the awareness of corporate governance and highlighted the responsibilities of different actors. However, continuing in their footsteps may not necessarily augur well given the distinctness of the Indian Capital system (Naudet and Dubost 2017). The voice of directors about the CSR rules, cited earlier, is a case in point. It appears that using extrinsic rewards (or punishments) dented the Boards intrinsic desire to do good through CSR. It has been established by Edward Deci (1971) how *externally motivated rewards* tend to dent *intrinsic motivation*. Its applicability to India is higher; for, as opposed to the individualist countries (read western) where the relationship between the individual (read Board member) and organization is 'calculative' (based on self-interest), India is characterised by a collectivistic society where the link between organization and individual is 'moral' (Hofstede 2004).

Policymakers must allow complementary theories (not just the *Agency Theory*) and recognize that legislation, culture, implicit norms of relationships among stakeholders, mechanisms, and the institutional environment (Zattoni and Van Ees 2012) collectively help evolve good governance practices. Further, we will do well to remember that the Indian business leaders are family managers. A globally celebrated professional Indian Industry captain said, *"Board is like a large joint family. There is a patriarch, a deputy patriarch, and have sons and daughters…"*. We find it echoes Hofstede's (2004) label of 'family manager' ascribed to cultures such as India and a 'US archetype' for western business leaders.

It was found that for the Indian business leaders, *the continuity of business*, *family interests,* and *patriotism* & *national pride* are more important goals than personal wealth and profits; whereas for the US business leaders, *focus on growth*, *this year's gains*, *personal wealth & power*, and *staying within the law* (Hofstede 2004) are most important. Further, the Indian capitalist system is distinct on multiple counts, and their deeply embedded business relations in the social structures resist the external influences (Naudet and Dubost 2017).

In light of the above-noted findings, discussions, and insights from the literature, I make the following **recommendations for the policymakers' consideration**.

a) Indian regulators must adopt a principle-centred approach to Board Evaluation (e.g., '*comply or explain*' system of Singapore or UK) instead of a penchant for more rules and micro-guidelines.

   They could take a clue from Sir Adrian Cadbury's report*, "It must be recognized that no system of control can eliminate the risk of fraud without so shackling companies as to impede their ability to compete in the marketplace"* (Cadbury 1992). An over-compliance regime is known to hurt the Management as they become risk-averse, making them less competitive to the detriment of effective governance (Christopher 2010). Many have voiced concern that corporate governance issues demand so much of NEDs' time and attention that they are in danger of becoming monitors, policing management and ticking corporate governance boxes rather than positive contributors to the organisation's strategic future (Pye 2001).

   An interviewee suggested that for the policymakers to ensure that we uphold the spirit of BE, they must believe that we Independent Directors are '*conscience keepers'*. Instead of focusing on newer prescriptive rules, their trust and seeking a simple *'conscience declaration'* will yield better results. Recognizing that the current stage of Board Evaluations is at Innovator/ Early adapter category[42] will serve well to support the diffusion of best practices. The current stage warrants catalytic interventions (e.g., recognition of Boards setting examples of *eBE*) and not excessive rules or the most stringent actions aimed at forcing the adoption. By adopting *eBE,* companies are likely to gain more than the governments, which is in their interest.

b) It is time to shed the obsession with *agency theory* and recognize the value of adding *Stewardship*, *Resource dependency* and *Institutional* lenses in framing India's corporate governance policies and Board Evaluations guidelines.

   The qualitative studies of Boards which have contributed to corporate governance legislation have their origins in USA and UK. The ownership of listed companies (in IS & UK) tends to be dispersed, a significant distinction exists between corporate owners and board members, and a large and diverse pool of business elites is available for drawing as Board members. These do not apply to economies like India, characterized by the predominance of family ownership[43] and strong informal relationships between the elites in the social, political and commercial domains (Soobaroyen and Mahadeo 2012).

   Remember that, often in India, unitary board chairpersons are 'tough-minded fellow combatants fighting the same war' (Hogg cited by Pettigrew and Mcnulty, 1995). They are not at the opposite end of the spectrum as the agency theory zealots would let us believe.

c) Beyond the broad principles of corporate governance, which protect multiple stakeholders in a global economy, blind following of laws & rules

[42] Elements of Diffusion (Ch 7 p 281) in the book Diffusion of Innovations (2003, Everett M Rogers)

[43] The proportion of companies where promoters hold more than 50% stake has increased from 56% in 2001 to 66% in 2018. In contrast, the aggregate average ownership held by private corporations and strategic individuals in listed companies in the US is 6%, while it is 12% in the UK, and the institutional shareholding in the US is 80%, and for UK companies it is 68%. So, it is still a long way before we can really underplay the role of promoters in the Indian market.(https://www.oecd.org/corporate/ownership-structure-listed-companies-india.pdf)

evolved in other countries may become counter-productive. I advocate engaging with our country's experts rather than copying other countries' practices. Indian experts chosen carefully will bring the relevant multi-disciplinary lens to formulate the policy framework. For example, a business school of repute with multi-disciplinary expertise can help policymakers overcome the perils of policy pronouncements carried out under extraneous pressures.

The political science literature identifies that the shifts in national mood, electoral politics, and focused events dictate legislation's contours and timing, often ignoring the well-researched literature and wisdom (Romano 2005). Scholars have labelled the Sarbanes-Oxley Act of 2002 (SOX) of the USA as a "quack corporate governance" regulation. It has been known that corporate governance law has followed the boom-bust-regulate pattern for over 400 years, starting in the UK. The Dodd-Frank Act 2010 was termed the second "quack corporate governance" (Bainbridge 2011); that, along with SOX, provided many of the changes India adopted vide the Company's Act 2013.

In the last couple of years, India has witnessed several clashes between Institutional Investors and the Board of Directors about Executive/ Director remuneration in companies such as Eicher Motors, Hero MotoCorp and Balaji Telefilms (Khurana 2022). India adopted Dodd-Frank's "Say on Pay," which has surfaced this conflict. It's beyond my understanding to judge this particular mandate's efficacy or long-term implications. One of my interviewees served on an 'expert committee'; he confided that these committees rarely devote time to substantive issues, often assuming western regulations to be the beacon and follow their footsteps. The uniqueness of the Indian Capital System (discussed earlier), the socio-cultural ties, and substantial differences with western economies warrant India to evolve its legislation. Indian agencies must leverage research insights and inter-disciplinary knowledge; therefore, my advocacy for multi-speciality Business School expertise.

d) Policymakers will do well to synchronise and make a coordinated action to changes in applicable law & rules (when necessary) after public debates and stakeholder involvement as a once-a-year phenomenon with prospective dates to help Boards of Directors gear up for implementation.

e) Govt must emerge as a model enterprise promoter-entrepreneur/ controlling-shareholder for the listed PSUs. The controlling Ministries must focus on constituting high-calibre Board composition and independence. Instead of exempting itself from BE, it must adopt the best practices and contribute to the diffusion of same among other Boards.

Many a voice like, *"Culturally, in India, people are not used to speaking frankly or openly commenting about somebody's style as a board member. So I don't think this fits our way of operating in India. So given the cultural dimension, I believe it is counter-intuitive of the Government to force evaluations"* could be countered by the exemplary *eBE* by the PSUs.

15 Way forward for Academia/ Researchers

Although experts have long recognized that a robust performance evaluation system can increase the overall effectiveness of Boards (Roy, 2013), not much empirical evidence exists of best practices for the specific outcomes (Brown, 2007; Northcott and Smith, 2011, cited by Roy, 2013). For at least 30 years, public policy in many countries has strived to institutionalize Board Evaluation - a multidimensional concept in which the interactions across the dimensions open paths to the improvement of boards processes; while some scholars have sought to conceptualize the practice, we lack a fuller understanding (B. D. Nordberg and Booth 2019).

This research, "Overcoming the problems in evaluating Boards," aims to cover the ground in this regard to enhance the theoretical and empirical understanding. This is perhaps the first research from India and very few globally that have attempted to uncover the triggers and hindrances towards effective Board Evaluations. It certainly contributes to the nascent literature on corporate governance in India and adds to the growing global literature on Board Evaluation, where there is a shortage of empirical insights.

These findings are an attempt to overcome the limits and dangers of relying on data issued by companies primarily for compliance and reporting (McNulty et al. 2011); the specific insights which go beyond available public disclosures include

- The nuances associated with the state of Board Evaluations in India
- Supporting and hindering practices (Criteria, Mechanisms and Norms - 11.2 & 12.2) and the causes of resistance (11.6 & 12.6)
- Factors contributing to the maturation of the Board Evaluation process (11.3, 11.4, 12.3 & 12.4) and the benefits of *eBE* (11.5 & 12.5)
- An *Antecedent* (11.7 & 12.7), a *Mediator* (11.8 & 12.8), and a *Moderator* (11.9 & 12.9) that aids *eBE*

Last but not least, this research led to the evolving concept of *eBE* and the development of a theoretical framework that offers a parsimonious explanation of the phenomenon of *eBE*.

15.1 Limitations of Study

The pointers/ little doorways to 'inner workings of the board' uncovered here attempt to open the metaphorical 'black box' of Board functioning through the grounded interviews. I have also touched upon a multi-theoretical lens like other scholars. However, the degree of depth and reliability of findings here would be severely limited, given the core focus was on Board Evaluation practice.

This research required intrusive access to Board members. Some of them were 'notoriously unwilling to submit themselves to scholarly poking and probing' [phrase borrowed from Hambrick, 2007]. Some may have remained muffled due to my inability to elicit the appropriate responses. A few may have window-dressed their narratives despite my carefully building rapport and providing them assurance of confidentiality, anonymity, and trust. One of the respondents reminded this by acknowledging, *"between how I answer you and how I behave, there can always be a big chasm, right?"*

Though I hope this limitation could have been mitigated due to a careful selection of informants -- the captains/ stalwarts of the Indian industry, who would not hesitate to stand up and be heard. I believe that the objectivity arrived through collective subjectivity of Board members who brought 308 years of Boardroom experience[44] representing 56 Companies which cover 12% of the Market cap of BSE500, would make these findings reliable and withstand the test of further research in the field.

[44] e.g., Two directors who served on 5 Boards for 5 years would represent 2 x 5 x 5 = 50 collective years

15.2 Research Agenda Ahead

In a strongly policy-led field, there is a danger that practice may ignore the evidence (B. D. Nordberg and Booth 2019). Further, the confidential and highly interpretive nature of Board activities makes it difficult to claim that all my findings and measures are reliable and comprehensive (Forbes and Milliken 1999).

Given the limitations of this study, the growing focus on Board Evaluations & Corporate Governance, and the opportunities, the following research agendas may serve well.

1. The *eBE* concept proposed through this research has the potential to be developed further. From "Effective" to "Effectiveness" could offer a measurability scale, which could turn into a maturity model. As discussed in section 10.1.1, the effectiveness of Board Evaluation can be seen as a multi-dimensional measure, requiring calibration along multiple dimensions.

2. I have argued that *eBE* can be a reliable proxy for a Chairperson's earnestness and effectiveness. Countries like Canada, where the BE mandate came into being in 1994, may have enough data to explore and test the proposition.

3. Covid put several constraints on the Boards and made it mandatory to record the Board meetings. That has opened up an unprecedented opportunity to study corporate governance practices shrouded in secrecy. By accessing the recordings, the specific options for research could be
   - Interpretive research basis the dialogues on Board Evaluations to further cement an understanding of the Board Evaluation phenomenon
   - A study of Boardroom dynamics and how it impacts the Board Evaluations

4. Understanding the temporal impact and stages of the journey in deploying *eBE* could be achieved better through a case study approach or ethnographic immersion. Studying a sample set of Boards where the process matured over the years can help identify and establish the specific actions/ dispensations required in the journey to eBE.

5. It has been pointed out earlier that governance experts pay little attention to the culture of the boardroom (Taylor, Larcker, and Tayan, 2017). The moderating role of the Board culture established here research makes the case stronger for pursuing an opportunity to understand the drivers shaping the Board culture.

6. The Diffusion of Innovations' research carried out extensively in multiple fields (from anthropology to economics to marketing to medicine to sociology) has been left untouched in corporate governance. It presents a significant area of opportunity, particularly given the presence of all the four elements of diffusion[45], viz., innovation (new governance practices), communication channels (interlocked directors across firms), over time (ref temporal effect 12.3), and among the members of a social system.

7. The convictions of founders/ controlling shareholders (refer to 14.1.1), which have a bearing on corporate governance, is an understudied phenomenon that warrants the attention of researchers.

8. Chairperson Competency (the mediating variable discovered in this research) needs exploration through the lens of different stakeholders. This research perspective is limited to a single stakeholder group, the Directors.

9. My interactions with captains of industry as interviewees provide a clue that the Executive Directors tend to take a Resource-Based view of NEDs. It needs investigation, and if it holds, it will be a valuable exercise to examine its consequences on Boardroom dynamics.

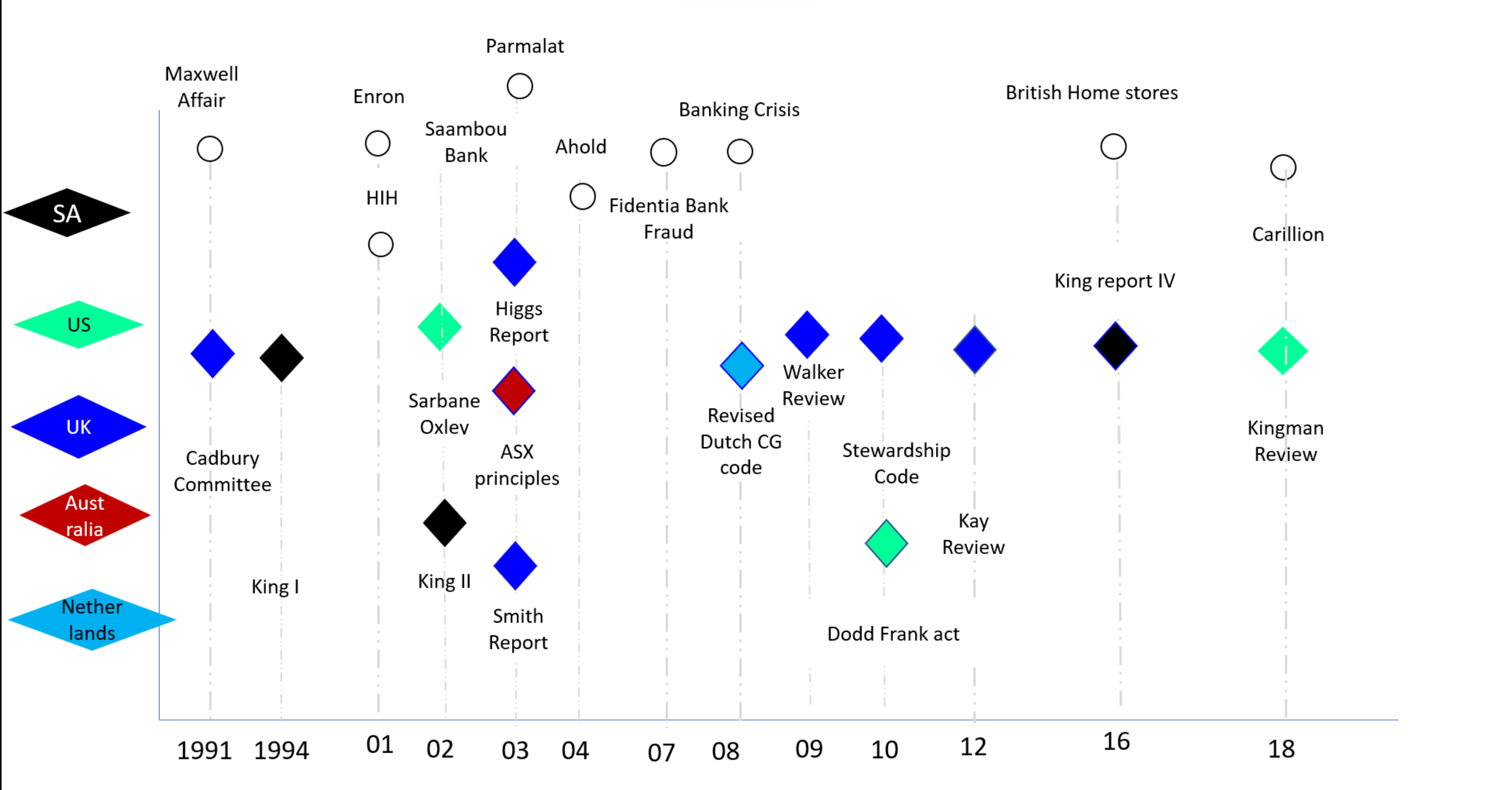
10. Further research on Board Evaluations can offer insights into the horizontal approach in appraisals of upper echelons, bridging the gap in a field where the literature has focused on vertical assessments.

[45] Elements of Diffusion (Ch 1) in the book Diffusion of Innovations (2003, Everett M Rogers)

16 Annexures

16.1 Global trend – a partial view

The visualization below is to provide a trend; this is only indicative and not exhaustive



Timeline of Corporate Scams and subsequent changes in Law outside India

16.2 India Mandate for Board Evaluations

Consequent to the Company's Act 2013 mandate for Board Evaluations, the SEBI[46] recognized the nascency of the practice provided and issued guidance notes in 2015, 2017 & 2018 to educate the Company Boards on various aspects. The salient points being

Main principle applicable to all listed companies and every other public company with paid-up share capital ₹ 25 Crore or more shall carry out the evaluation of the Board at three levels viz. (a) Board as a whole (b) Committees of the Board and (c) Individual Directors and Chairperson

Execution: NRC shall formulate of criteria for evaluation of performance, carry out the evaluations and basis that determine whether to extend or continue the term of appointment of directors.

Independent Directors of the company (without the attendance of non-independent directors and management), shall review the performance of non-independent directors, Chairperson and the Board as a whole. They must also assess the quality, quantity and timeliness of flow of information between the company management and the Board, thereby bring an objective view in the evaluation of the performance of Board and Management.

The process of Evaluation

1. **Frequency**: at least once a year
2. **Responsibility**: The primary role of steering Board evaluation and ensuring its effectiveness for improving Board efficiency lies with the Chairperson.
3. **Method of evaluation**: No mandate has been stipulated and Boards have considerable freedom.
4. **Objectives and the criteria of evaluation**: Indicative guidance provided, not a rigid set of rules
5. **Feedback**: On collation of all the responses, the feedback must provided by Chairman/ external assessor to every member, Board and Committee
6. **Action Plan**: Based on the analysis the Board must prepare an action plan
7. **Disclosure**: Disclosure of the evaluation must be made to the shareholders on an annual basis
8. **Review**: Recognizes that the Board evaluation is not a static process and requires periodical review for improvement

[46] Securities and Exchange Board of India equivalent of SEC in USA

16.3 Interview Protocol – Grounded Inquiry

Questions for Directors

After thanking them and setting the context of the interview, reiterate the confidentiality. Urge their forthrightness. Explain to them that the two parts of Questions

(a) they would express the Board perspectives as they experienced in one or two company Boards and

(b) their own perspectives in respect of Board Evaluations

Q1a: What was the interpretation of the Board Evaluation mandate by your Board. (Gather some company demographic details if the Company's name is not divulged – listed/ unlisted size, ownership, key features of Board, CEO – Duality, style, e.g., larger than life CEO/ promoter, the role of Board). How did the Board interpret this mandate?

Q2a: Can you please share a narrative or storyline of this Board's implementation of Board Evaluation? (ensure to gather the following)

- What was the Practice?
- Who were the key influencers?
- Who/ what made it possible?

Q3a. Can you provide a storyline of one or two more Boards (repeat above two Qs) – [seek the contrasts as they saw to develop greater clarity]

Q1b: What is your own perspective on the Board Evaluations mandate applicable to Indian companies? The purpose it serves currently and the potential of its usefulness?

Q2b. In your experience, the Boards who are reluctant to deploy Board Evaluations in the right earnest, why do they do it? What factors impede the adoption of Board Evaluation Practice?

Q3b. Would you consider any of the narratives you shared earlier as exemplary/ good deployment of the Board Evaluation Practice? If yes, which one(s)? What factors contributed to instituting it as a helpful practice?

- What changes would you recommend to make it even better?

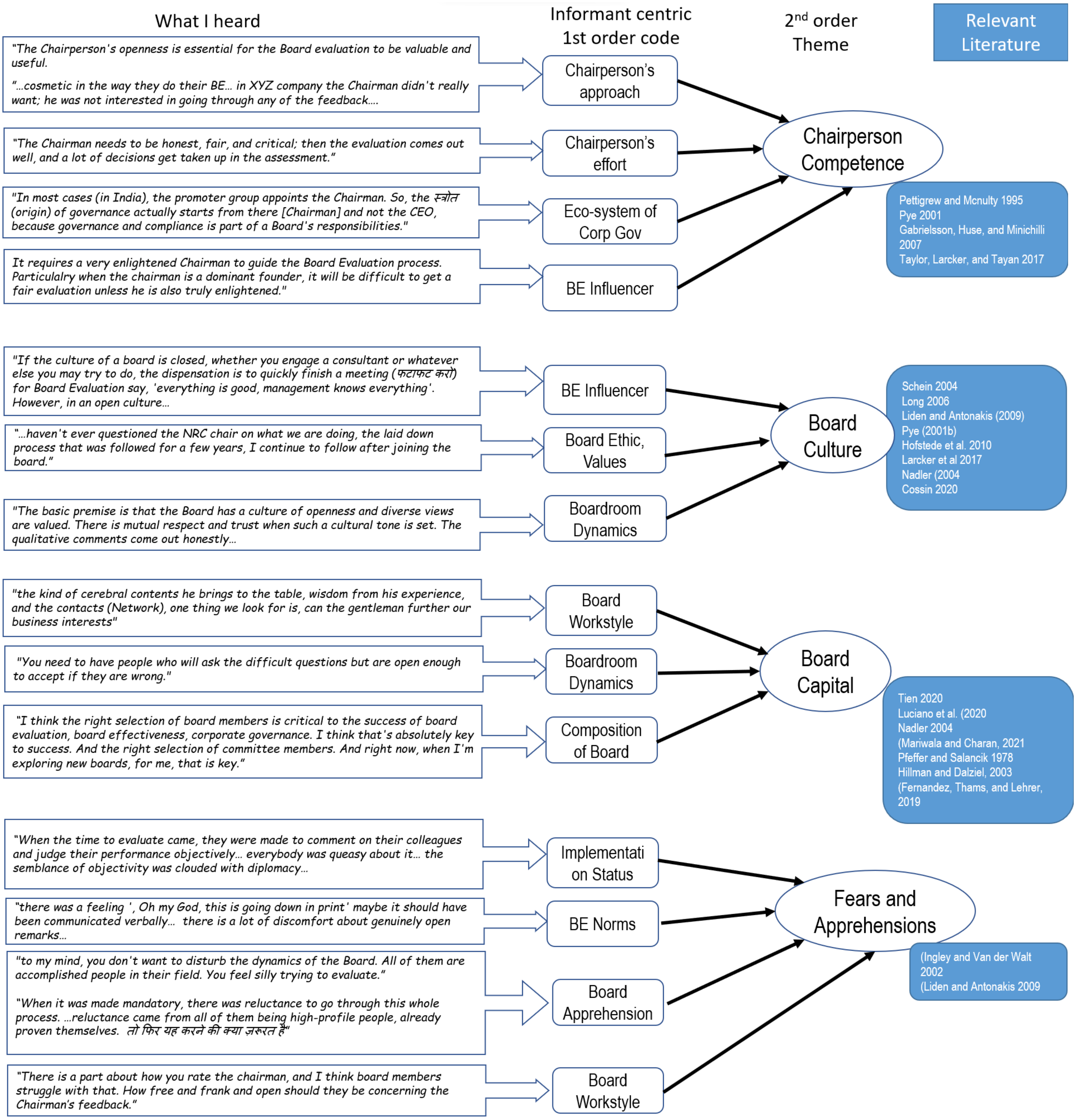
Q4b. Do you see/ hear of any companies which do exemplary deployment of the Board Evaluation practice? If yes, please share a bit about the same (names of companies, what makes them exemplary, what has facilitated these Boards to be exemplars)

16.4 Interview data – Coding level-1

Code Name	# of Intvws	# of Ref
BE Practice	18	282
BE Criteria	6	11
BE Driver	10	15
BE Implementation Status	16	37
BE Influencer	14	46
BE Matures over time	12	28
BE Mechanism	17	60
BE Norms	16	44
BE Required thrust	11	41
Board Constitution	14	39
Composition of Board	11	22
Mandates for the Board	2	4
Norms Board functioning	7	13
Board Orientation to BE	10	48
Board ambiguity	6	8
Director Fear n Discomfort	7	10
Ecosystem of Governance	14	51
Feedback	13	31
Feedback Board	7	14
Feedback individual	13	17
Goals	5	13
Board Overall	3	4
Goals Committees	1	1
Goals individual	3	7
Superordinate	1	1

Code Name	# of Intvws	# of Ref
Board Apprehension	4	17
Board Favourable Attitude	7	14
Compliance	4	9
Chairperson Impact	13	58
Chairperson Approach	11	23
Chairperson competence	6	22
Chairperson Effort	7	13
Culture n Intangibles	14	59
Board Ethic Values Overriding Culture	4	9
Board Social fabric	6	12
Board Workstyle	9	17
Boardroom Dynamics	11	21
Director Dispensation	12	43
Director Approach	12	27
Director Egocentricity	2	6
Payoff	16	79
None or Negative	7	14
Payoff -corrective mechanism	9	23
Payoff raising the bar	13	42
Public Sector	7	16
Regulation n Mandate	16	54
Behavioural thrust	5	9
Rule vs Autonomy	12	36
Undecided	7	9

16.5 A sample of the second order codes and theoretical references



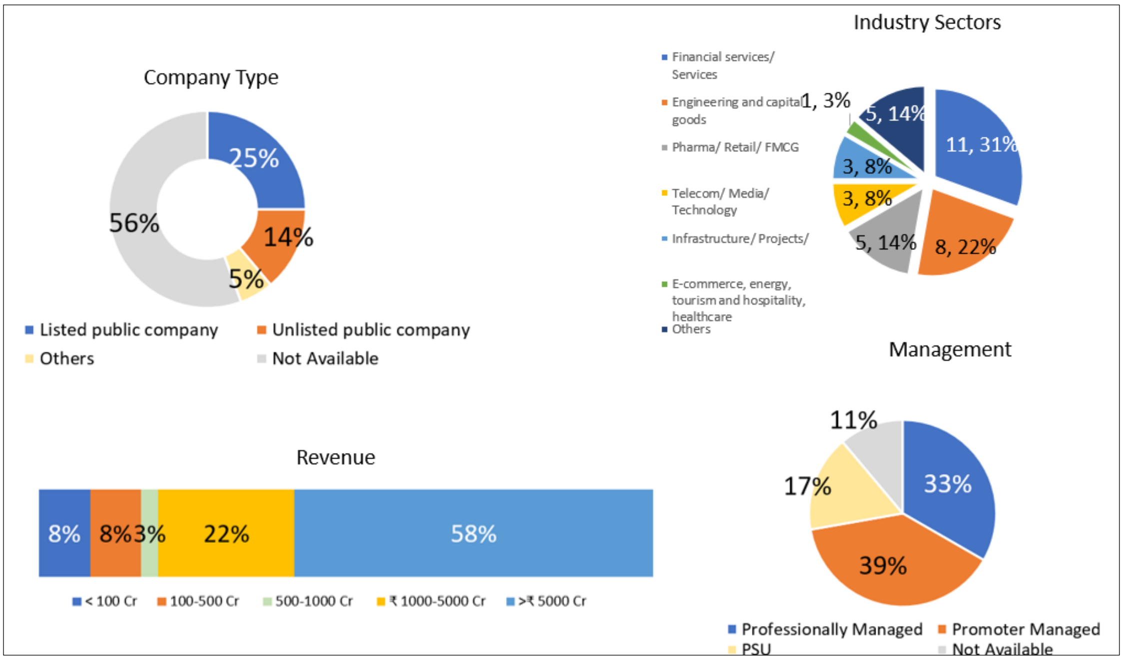
16.6 Examples of Board Goals

To have access to this annexure, please reach out to ISB or the researcher.

16.7 Precursor Research

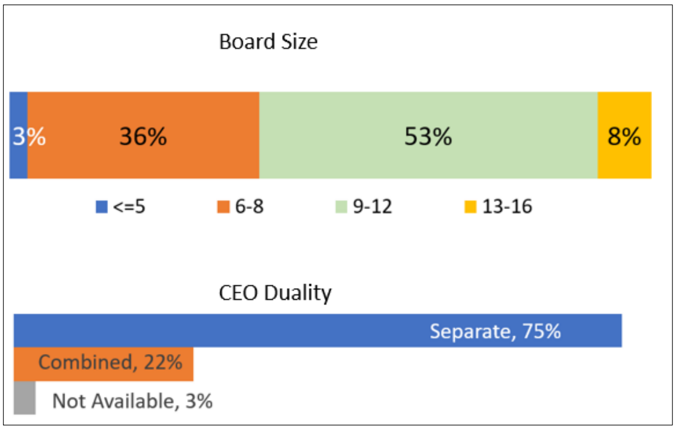
16.7.1 Findings and inferences

Characteristics of companies in the sample

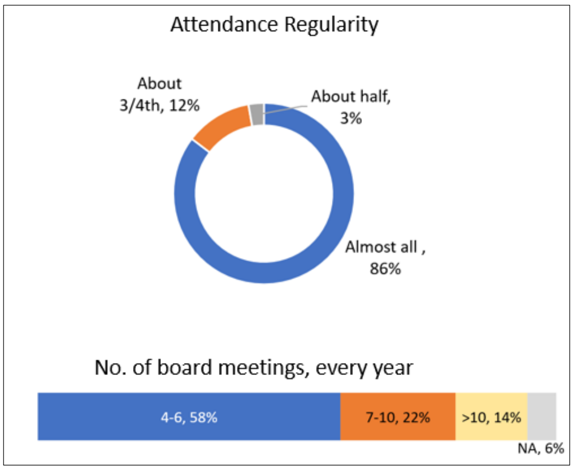


Board Composition

Director Effort and Commitment

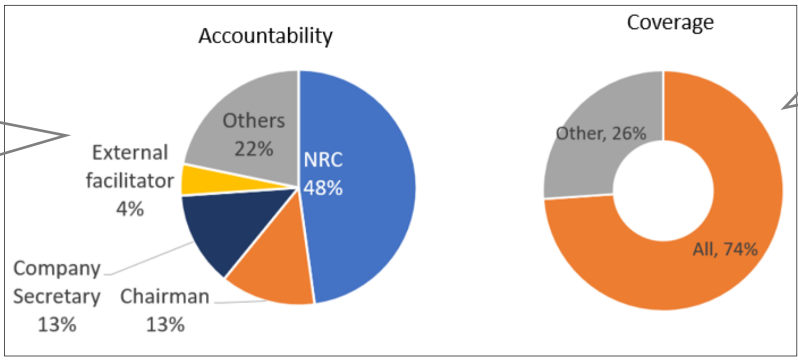


BE



Contours

Others: Includes board committee for performance evaluation and committee of independent directors



All - consists of evaluation of Board, Committees, Chairperson and individual Directors

Others- A combination of Board and 1 or more other areas

Data and values assigned for establishing the correlations

To have access to the table of analysis, please reach out to ISB or the researcher.

Interpretation of codes in table above

To determine the impact of different qualitative parameters, the responses were assigned numerical values to correlate the data. The following logic was adopted for Company characteristics (Sl 1 to 4 below), Board Composition Parameters (5 & 6) and Board Functioning – Effort and Commitment (7 - 9) and Board Mechanisms (10 -14):

1. Co Ownership → Listed Public Company (1) Unlisted (-1) Others (0)… basis necessity for and payoffs of Board Evaluations
2. Management type → Professionally Managed (2) Promoter Managed (1) PSU (0) – rationale the practice should be easy to roll out in a Professionally Managed company
3. Revenue – rationale Bigger the company, greater the need for robust Board Evaluation and Corporate Governance need
   a. < 100 Cr (< $13 Mn) - 1
   b. 100-500 Cr ($13-70Mn) - 2
   c. ₹ 500-1000 Cr ($70-140 Mn) - 3
   d. ₹ 1000-5000 Cr ($140-700 Mn) - 4
   e. >₹ 5000 Cr (>$ 700 Mn) - 5
4. Employee strength – similar rationale as above
   a. < 500 - 1
   b. 501 to 1000 - 2
   c. 1001 to 10000 - 3
   d. > 10000 - 4
5. Board – larger the board, greater the need and challenge in driving board performance
   a. <=5 - 0
   b. 6-8 - 1
   c. 9-12 - 2
   d. 13-16 - 3
6. CEO Duality
   a. The chairman and CEO roles are separated - 1
   b. The chairman and CEO roles are combined - 0
7. Board members effort and Commitment – number of meetings <4 times (0), 4-6 (1), 7-10 (2) >10 times (3)
8. Board members effort – meetings duration <3 hours (0), 4-6 hours (1), Full day (2)
9. Board members Commitment – Attendance > 75% (2), 50-75% (1), else (0)
10. Planned scheduling of Board meetings – > 3 months (3), 1-3 months (2), 2 – 4 weeks (1), else (0)
11. Advanced Intimation of Board agenda – > 3 months (4) 2-3 months (3), about one month (2), 1-3 weeks (1) and < 1 week (o)
12. Agenda setting decision by - the Executive (0), Chairman (1) and Board/ influenced by NED (2)
13. Advanced circulation of preparatory information > 1 month (5), 2-3 weeks (4), About one week (3), 3-6 days (2) and 2 days or less (1)
14. Functioning Committees – one point for each constituted committee – range in sample 3 to 5

Coefficeints Map		BE Y/ N
Company Characteristics	Co Type/ listed	-0.25
	Management type	0.72
	Rev	-0.12
	Emp	0.36
Board Composition	Size	-0.13
	CEO Duality	0.33
Board Functioning	No of Meet	-0.23
	Effort & Commitment	0.18
	Planned Meeting	0.58
	Attendance	-0.13
	Info sharing	0.00
	Committees	0.49
	Tot Score	0.46

Survey based only

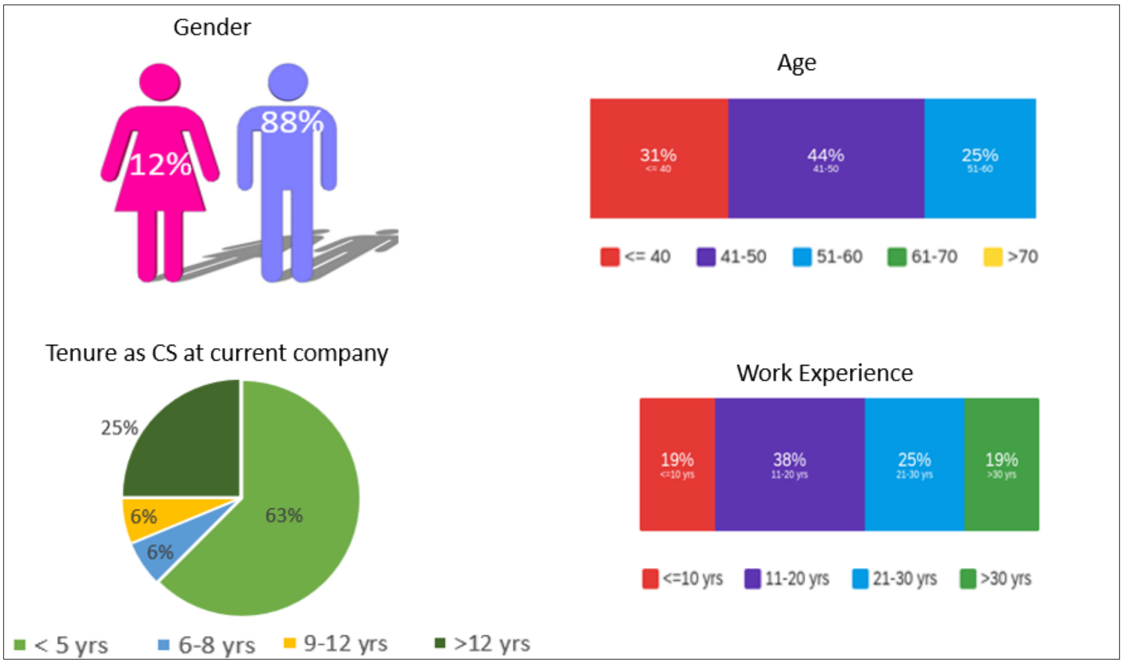
Additionally, to ascertain whether Board Evaluation had a positive impact on the Board Performance we had sought response to an overarching question in the survey "Our Board evaluation contributes to better performance of Board" requiring answer on the Likert scale. For this perceptive outcome variable *(Better Board Performance)*, three explainable variables were considered and responses to following three Likert questions analyzed

- Variable 1: *Robust BE process* (Likert question "Board evaluation process at our company is robust")
- Variable 2: *Actionability of BE feedback* (Likert question A clearly defined action plan emerges from our Board evaluation)
- Variable 3: *BE Trigger* – 'voluntary initiative of Board' or 'triggered by majority/ controlling shareholder' or 'mandated by law'

The first two variables were assigned integer values between +2 to -2 and the third variable +2 (Board's proactive initiative), +1 (policies of conglomerate group) and 0 (mandated by law). The correlation between the sum of scores and value assigned to outcome variable (+2 to -2 values) was determined to aid inference of results.

16.7.2 Company Secretaries Survey – Additional Information

Demographics – survey characteristics



Co Secretaries' voice to open – ended questions

1. What would you recommend to company managements in India wrt Board evaluation?

Verbatim responses –

1. Board evaluation is one of the most important things which should be carried out. sometimes it becomes awkward situation for management for carry our board evaluation process. I strongly recommend management that such activity should be carried out though third party, who are expert in this domain. It will help in many ways - eg: it will be independent assessment, awkward situation that management might face, can be avoided etc.
2. It's a very healthy exercise and should be undertaken in right spirit
3. Board evaluation process should be mutually agreed by Board before the evaluation.
4. The evaluation process should take into account the independent/ non-executive directors being not employees of the Company and the supervisory role the Board is required to play.
5. Appointment independent expert firm to collate and analyse the evaluation.
6. Analysis of the independent firm forms the basis for discussion.
7. Board and committee evaluation, collective evaluation of independent directors and collective evaluation of executive directors should be discussed at the Board Meeting.
8. Meeting of Independent Directors should evaluate all the Executive Directors and the Lead Independent Director should provide feedback to the CEO.
9. Individual evaluation of directors by peer directors, should be shared confidentiality with the concerned director and Chairperson of Board can provide feedback as necessary.
10. Appoint independent directors of good standing and integrity, who may have the ability for transparent feedback.
11. Management should walk the talk and lead the way on evaluation. "
12. Be more focused on compliance requirements

13. Transparent sharing of Feedback given by Directors
14. Evaluation by an external agency consisting of subject matter experts will achieve the rationale
15. Appoint qualified members to the Board, as opposed to family members being on the Board, identify the business requirements and set down parameters for performance evaluation periodically.
16. Constant focus on Good governance and Integrity
17. Board evaluation should be undertaken by third party experts.
18. Go beyond the letter and spirit of law
19. independent, clear views. taking performance of director as important factor
20. "It should be candid and comprehensive, preferable to be assigned to an independent 3rd party to ensure pertinence.
21. Post evaluation and analysis, gaps/ areas of improvement should be addressed appropriately, and MD of the Company should lead this assignment."

Q2. What would be your recommendations to govt/ policy makers/ SEBI towards 'Board Evaluation' policy making?

1. Quality focused, must be disclosed to the market
2. Policy makers should add following provisions:
    a. Board evaluation should be done through third party, without presence of the management.
    b. Any actionable arising out of the Board evaluation process, board should provide appropriate solutions. Since, board has to provide some suggestions, they comment on the process followed by the management - This exercise of board evaluation is not for management evaluation and hence to avoid such suggestions, Regulator should provide clear directions in this regard."
3. It should be dynamic to accommodate the requirements of changing environment
4. No more regulations, it needs to evolve through self-regulation. Be a facilitator to encourage and strengthen Board Evaluation. It always needs be borne in mind that the independent directors perform a supervisory role and the parameters applicable to an employee may not be relevant for board evaluation.
5. Suitable action plan needs to be executed pursuant to evaluation
6. Policy should focus more on industry centric approach
7. Leave for the Board to decide as it is Subjective in Nature
8. It became highly a compliance process & Indian promoter think it is the mere job of CS only just collating few questions. It should be made mandatory with an independent external expert (like CS/CA) or an agency
9. I personally think Government should not make a policy on Board evaluation - except perhaps make it mandatory for every company to have a policy. It has to be a business requirement. Government can only monitor the regulatory requirements and take action in case of frauds, offenses or complaints.
10. Minimal but effective laws and regulation. Keep Laws simple and implement efficiently. Do not have multiple regulations and change frequently with notification upon notification
11. Board evaluation should be made by third party expert professionals to make to effective.
12. Legislations should be clear and unambiguous so that it is easy to understand and comply. This will ensure maximum compliance.
13. For effective Board evaluation, fundamental parameters should be firmed up and the additional parameters should be left at the discretion of the Company considering the Industry to which it belongs.
14. Auditors (Secretarial and Statutory) of the Company should be given responsibility to assess the Board Evaluation process and they must comment in their report to the Shareholders."

Q3. Keeping in view our research objective (to assess state of Board evaluation in Indian companies and influence emergent policies in India) Any other comments/suggestions:

1. Consistent, objective, measurable parameters must be developed with clear definition of what it means

2. Quality of board evaluation is more about the quality and standing of board members. Board diversity and standing of board members, augurs well for board evaluation. The culture of the organisation is probably the most significant element.
3. Board evaluation be strongly viewed as a tool to enhance Board and management effectiveness. Post evaluation, the weaknesses should be actually worked upon rather than limiting it to only compliance related matter.
4. Evaluation mechanism should also take into account the industrial experience
5. Governance is a continous process. Too much of regulation is not required as it loses its importance
6. Very good initiative by IBC. Lets ensure this process is not merely done for vanity
7. Board evaluation must be done more by competent 3rd parties to make it really effective
8. Tks for providing opportunity to me.

Third party Importance of Simplify/reduce Govt.

Survey Questionnaire

Landing Page

INDIAN SCHOOL OF BUSINESS CONSENT FORM

Thank you for agreeing to participate in this study being conducted by the Indian School of Business, India. Through this anonymous survey we aim to gather views, perspectives and facts shared by Company Secretaries on the current state of *Board Evaluations* (in India).

Findings will be helpful for Companies, Boards of Directors, Academia and perhaps influence the emergent policies in India. This may take about 10 minutes of your time.

Your responses shall remain confidential. Any personal/ company information shared by you shall be known only to the researcher and not used for any purpose other than the research. We request your candid and forthright responses to all questions.

There are no known risks associated with your participation in this research. Participation in the research is completely voluntary. There is no compensation offered for your participation in the study. If at any point you feel uncomfortable, you may abandon the process.

If there is anything that is unclear or you seek more information, please do not hesitate to contact the Principal Investigator:

Harish Raichandani
+91 990 842 7474
harish_raichandani_EFPM2019@isb.edu
Indian School of Business, Gachibowli, Hyderabad – 500032, India.

For questions about your rights as a research participant, you may contact the Chair of the Institutional Review Board (IRB) at ISB: Professor Ashwini Chhatre at 040-2318-7134 or email ashwini_chhatre@isb.edu at the Indian School of Business, Gachibowli, Hyderabad – 500111, India.

Please give your consent to participate

- I consent, begin the study
- I do not consent, I do not wish to participate

State of Corporate Governance in the Indian Companies

Demographic :

1. Your total work experience
   a. <=10 yrs
   b. 11-20 yrs
   c. 21-30 yrs
   d. >30 yrs

2. Of these years as a CS for your current Company
   a. <5 yrs
   b. 6 to 8 yrs
   c. 9 to 12 yrs
   d. > 12 yrs

3. Gender
   a. Male
   b. Female
   c. Other
4. Age
   a. <=40
   b. 41-50
   c. 51-60
   d. 61-70
   e. >70

About the Company

1. The best possible description for this company
    - Listed public company
    - Unlisted public company
    - An entity of a company listed outside India
    - Other(Pl specify)
2. Following is appropriate description for this company
    a. Professionally Managed
    b. Promoter Managed
    c. Family Managed
    d. Other (Pl specify)
    e.
3. The industry sector attributable (to Company's businesses)
    - Engineering and capital goods
    - Pharma/ Retail/ FMCG
    - Financial services/ Services
    - Telecom/ Media/ Technology
    - Infrastructure/ Projects/
    - E-commerce, energy, tourism and hospitality, healthcare
    - Other (Pl specify)

4. Company's revenue
    - < 100 Cr (< $13 Mn)
    - 100-500 Cr ($13-70Mn)
    - ₹ 500-1000 Cr ($70-140 Mn)
    - ₹ 1000-5000 Cr ($140-700 Mn)
    - >₹ 5000 Cr (>$ 700 Mn)
5. Company's employee strength
    - < 500
    - 501 to 1000
    - 1001 to 10000
    - > 10000

About your Board Effectiveness Assessment

Questions which do not display response choices here, contained 5-point Likert scale choices viz.
• Strongly agree •Agree •Not Sure • Disagree • Strongly disagree

1. Does your Board undertake periodic evaluation of the Board effectiveness
   - Yes
   - No

Nested Questions

1No a When is your company likely to commence Practice of Board evaluation

- Unlikely to start
- After 2 yrs
- Next year
- Current FY
- Undecided

1No b What has/could trigger your company to initiate Board evaluation

- Mandate by Company's Act
- Chairman initiative
- CEO recommendation
- Shareholder demand
- Any other (pl specify)

1No c The current thinking about the appropriate frequency for Board evaluation in your company

- Every 2-3 years
- Annually
- Twice in a year
- Event based
- Not Applicable/Can't say

1No d The current thinking about the mechanism best suited for your Board evaluation [Tick all applicable]

- Assessment by Chairman
- Assessment by third party expert(s)
- Informal self-evaluation by Board
- Questionnaire based peer and committee evaluation by Board
- Questionnaire based evaluation aggregated by third party
- Don't think evaluation is required
- Any other (pl specify)

1Yes a For last how many years the Board has been conducting the Board Evaluation

- >3 yrs
- 2-3 yrs
- <2 yrs

1Yes b What triggered the company/Board to initiate the process of Board Evaluation

- Mandate by Company's Act
- Chairman initiative
- CEO recommendation
- Shareholder demand
- Any other (pl specify)

1Yes c At what frequency is the Board evaluated

- Every 2-3 years
- Annually
- Twice in a year
- Event based
- Any other (pl specify)

1Yes d Which mechanism(s) is used for Board Evaluation exercise [Tick all applicable]

- Assessment by Chairman
- Assessment by third party expert(s)
- Informal self- evaluation by Board
- Questionnaire based peer and committee evaluation by Board
- Questionnaire based evaluation aggregated by third party
- Any other (pl specify)

1Yes e Who leads the Board Evaluation process

- Nomination and Remuneration Committee
- CEO
- Company Secretary
- External facilitator
- Any other (pl specify)

1Yes f Board evaluation process at our company is robust

1Yes g A clearly defined action plan emerges from our Board evaluation

1Yes h Our Board evaluation contributes to better performance of Board

1Yes i Aspects covered in our most recent Board Evaluation process include [Tick all applicable]

- Evaluation of the Board
- Evaluation of Individual directors
- Evaluation of committees
- Evaluation of Chairperson
- Any other (pl specify)

2. What is your current Board size
   - <=5
   - 6-8
   - 9-12
   - 13-16
   - >16
3. Which of the following best describes your board leadership structure
   - The chairman and CEO roles are combined
   - The chairman and CEO roles are separated
   - Others, pls specify
   - NA
4. Board Meeting-numbers and frequency, stipulated by Company's Act is adhered

5. Board meetings are well planned, organized and the time utilized effectively

6. Duration of a typical meeting of the full Board (Exclude committee meetings)
   - <3 hours
   - 4–6 hours

- Full Day
- Uncertain/ Cannot Say

7. How many times does the Board meet in a year
   - <4 times
   - 4-6
   - 7-10
   - >10

8. What proportion of directors attend > 75% of scheduled meetings
   - Almost all
   - About 3/4th
   - About half
   - Less than half

9. For most of our Board meetings, the schedule is firmed up and intimated
   - >6 mths in advance
   - 3-6 mths
   - 1-3 mths
   - 2-4 weeks
   - < 2 weeks

10. The agenda of our Board meetings is generally intimated in
    - >3 months in advance
    - 2-3 months
    - about one month
    - 1-3 weeks
    - < 1 week

11. Usually the preparatory information is circulated in
    - > 1 month in advance
    - 2-3 weeks
    - About one week
    - 3-6 days
    - 2 days or less

12. Typically, our Board agenda is firmed up by
    - The Chairman
    - The CEO (if not the same as Chairman)
    - Primarily influenced by executive directors
    - Independent directors have a considerable say
    - Company Secretary with Executive oversight
    - Any other (pl specify)

13. The maximum time of your Board is spent on ______, Rank in order of time spent by dragging to the desired place
    - Regulatory compliance
    - Monitoring management performance
    - Review of Operations (mkt performance, operational effectiveness etc)
    - Shaping org strategy
    - Risk Mitigation (technological, financial, obsolescence)
    - Any other (pls specify)
    - Any other (pls specify)

14. All the independent directors are truly independent, in letter and spirit

15. Financial statements, audit activities and compliance activities are always reviewed by the full Board

16. The full Board reviews all the compliances to applicable laws and regulations

17. The Committees constituted for our Board include [Tick all applicable]
    - NRC
    - Audit
    - CSR
    - Stakeholder relationship
    - Risk
    - Governance
    - Others (pl specify)

18. I believe the Board Committees are staffed with required expertise

19. I believe the Board Committees discharge their responsibilities effectively

20. Board ensures a functioning whistleblower mechanism

21. Number of whistleblower complaints received last year
    - Zero
    - < 5
    - 6-25
    - 26-50
    - 51-100
    - >100

22. The frequency with which Audit committee is presented summary of whistleblower complaints
    - Immediately upon receipt of a complaint
    - In the next Audit Committee meeting
    - On the eve of next Board meeting
    - Any other, Pl specify_______

23. What is your evaluation of Board focus [10-point scale where 10 indicates Long-term/ Strategic and 1 indicates Short-term/ Administrative]
    - 5 (Long term/ strategic issues)
    - 4
    - 3
    - 2
    - 1 (Short term /administrative Issues)

24. What would you recommend to company managements in India wrt Board evaluation
    - ____________________________(Open ended question)

25. What would be your recommendations to govt/policy makers/SEBI towards 'Board evaluation 'policy making
    - ____________________________(Open ended question)

26. Keeping in view our research objective *(to assess state of Board evaluation in Indian companies and influence emergent policies in India)* Any other comments/suggestions
    - Open ended question

27. Which of the following best describes your Board's ongoing director education program

- Provided in-house by management
- Provided in-house by a third party
- Directors are encouraged to attend public/programs offered by other institutions
- Our Board does not have a formal director education program
- Other, please specify:
- Don't know/Not applicable

28. In the last 12 months, which of the following areas were sought by your Board members for their continuing education [Tick all applicable]
    - None/No such practice exists
    - Domain Related
    - Macro micro economic trends
    - Changing industry landscape
    - Regulatory/Statutory changes
    - Best Governance practices
    - Any other (pl specify)

29. Would you like to get a copy of this survey findings for benchmarking/ learning
    - Yes
    - No

30. Your e-mail (not mandatory)
31. Your mobile number (not mandatory)
    (Please be assured all individual responses are CONFIDENTIAL. Survey findings present only aggregated data. Your contact details will not be shared with anyone or used for unsolicited mails/calls)
32. Are you open to personal interaction to provide us deeper insights on certain aspects of corporate governance/ board evaluation?
    (no personal or company information will be sought; only your perspectives or practices; you will never be quoted anywhere)
    - Yes
    - No

16.7.3 Sample set of companies for Annual Reports study

To have access to this annexure, please reach out to ISB or the researcher.

Board Evaluation in practice of the acknowledged leaders

The corporate governance scorecard 2019 by IFC, “Stability Despite Headwinds” highlights and scores 10 companies as leaders in maintaining high standards of ‘corporate governance’. Excerpts from Annual Reports of three of these as indicators of the adoption & robustness of Board Evaluation standards. 2018-19 reports were considered to maintain parity with the dataset in this research.

Leadership - Cipla, HUL, Tata Power, HDFC, Infosys, Wipro

Good – Dr. Reddy, HDFC Bank, Marico, Tata Motors

17 Exhibits

The data and references generated as precursor to the main research

17.1 "Corp Governance" – most cited management literature

Journal	**# papers**	**Cum Citations**
Abacus	1	748
Academy of Management Annals	1	746
Academy of Management Journal	2	1407
Academy of Management Review	5	4976
Accounting Review	2	2202
Auditing	1	591
California Management Review	1	714
Entrepreneurship: Theory and Practice	1	781
Journal of Accounting and Economics	5	5359
Journal of Accounting and Public Policy	2	1481
Journal of Corporate Finance	4	2942
Journal of Finance	7	10923
Journal of Financial and Quantitative Analysis	1	666
Journal of Financial Economics	22	25339
Journal of Law, Economics, and Organization	1	854
Journal of Management Studies	1	799
Leadership Quarterly	1	1014
Review of Financial Studies	1	1169
The Journal of Finance	1	913
Grand Total	**60**	**63624**

Papers in Top 20 Journals since 2010

	Leadership Quarterly		**Strategic Management Journal**		**Tourism Management**		**Total Papers**	**Total Citations**
Year	**# Papers**	**Cum Cite**	**# Papers**	**Cum Cite**	**# Papers**	**Cum Cite**		
2010			3	278			3	278
2011			3	233			3	233
2012			3	406			3	406
2013	1	16	4	266			5	282
2014			4	176	1	35	5	211
2015			7	237			7	237
2016			7	359	1	72	8	431
2017			12	272	1	10	13	282
2018	1	45	13	67			14	112
2019	3	10	4	21			7	31
2020	1		6	3			7	3
Total	**6**	**71**	**66**	**2318**	**3**	**117**	**75**	**2506**

Authors’ primary area of expertise – top 60 cited papers

Row Labels	Fin & Account	Econ	Strat	Law	Mgt	Org Beh	Corp Gov	Philo	NA	Total
Abacus	1									1
Academy of Management Annals					1					1
Academy of Management Journal			2							2
Academy of Management Review			4		1					5
Accounting Review	1								1	2
Auditing	1									1
California Management Review								1		1
Entrepreneurship: Theory and Practice		1								1
Journal of Accounting and Economics	4								1	5
Journal of Accounting and Public Policy	1								1	2
Journal of Corporate Finance	2	2								4
Journal of Finance	4	3								7
Journal of Financial and Quantitative Analysis									1	1
Journal of Financial Economics	10	8		2			1		1	22
Journal of Law, Economics, and Organization									1	1
Journal of Management Studies									1	1
Leadership Quarterly						1				1
Review of Financial Studies				1						1
The Journal of Finance		1								1
Grand Total	**24**	**15**	**6**	**3**	**2**	**1**	**1**	**1**	**7**	**60**

17.2 ... report highlights

To have access to this exhibits, please reach out to ISB or the researcher.

17.3 Potential Benefits of Board Evaluation

Benefits	To organisation	To board	To individual directors
Leadership	• Sets the performance tone and culture of the organisation • Role model for CEO and senior management team	• An effective chairperson utilising a board evaluation demonstrates leadership to the rest of the board • Demonstrates long-term focus of the board • Leadership behaviours agreed and encouraged	• Demonstrates commitment to improvement at an individual level
Role clarity	• Enables clear distinction between the roles of the CEO, management and the board • Enables appropriate delegation principles	• Clarifies director and committee roles • Sets a board norm for roles	• Clarifies duties of individual directors • Clarifies protection of directors • Clarifies expectations
Teamwork	• Builds board/CEO/ management relationships	• Builds trust between board members • Encourages active participation • Develops commitment and sense of ownership	• Encourages individual director involvement • Develops commitment and sense of ownership • Clarifies expectations
Accountability	• Improved stakeholder relationships, e.g. investors, financial markets • Improved corporate governance standards • Clarifies delegations	• Focuses board attention on duties to stakeholders • Ensures board is appropriately monitoring organisation	• Ensures directors understand their legal duties and responsibilities • Sets performance expectations for individual board members
Decision making	• Clarifying strategic focus and corporate goals • Improves organisational decision making	• Clarifying strategic focus • Aids in the identification of skills gaps on the board • Improves the board's decision-making ability	• Identifies areas where director skills need development • Identifies areas where the director's skills can be better utilised
Communication	• Improves stakeholder relationships • Improves board–management relationships • Improved board–CEO relationships	• Improves board–management relationships • Builds trust between board members	• Builds personal relationships between individual directors
Board operations	• Ensures an appropriate top-level policy framework exists to guide the organisation	• More efficient meetings • Better time management	• Saves directors' time • Increases effectiveness of individual contributors

Potential Benefits of Board Evaluation – Source: Keil and Nicholson, 2005

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