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Mindset change will help ensure effective board evaluation'

To ensure that the process of evaluating the performance of directors' at companies is effective, there is a need for a "mindset" change, a senior SEBI official said today. Under the Companies Act, 2013 as well as SEBI norms, firms are required to evaluate the performance of directors on their boards. SEBI (Securities and Exchange Board of India) Whole Time Member Prashant Saran said a "mindset change is needed" to ensure that evaluation of directors' performance becomes effective. "The first thing that must be made clear is that the entire process is non-judgemental... The idea is not to denounce or praise somebody," he added.

According to him, a company should be effectively utilising the services of an external consultant than just for ensuring compliance with various regulations. Saran was speaking at a seminar on 'Board Evaluation — Purpose & Process' organised by the Institute of Company Secretaries of India (ICSI). Former SEBI Chairman M Damodaran said that the evaluation of a company's board should not be seen as a tick-the-box exercise. "We should see this an opportunity rather than threat... We need to see it as something that can add value and not look at it as a tick-the-box exercise," he noted. Referring to promoter directors at companies, Damodaran said that in some cases, an individual is changed from chairman to chairman emeritus. "They set up the company and grow it. In India it is very difficult to let go... Give respect but keep the person outside the board," he said. Damodaran also took a dig at the Companies Act, 2013, whose most provisions came into effect from April 1 last year. "I personally regard this (new Companies Act) as one of the best books in humour that has been written. Whenever I need to read jokes, I open the Companies Act and read it. "In the way it was written, both in terms of scope and content, I don't know which is the bigger offender, the Companies Act has provided me in the recent past more amusement than most books of fiction," he said.