GLOBAL BOARD EVALUATION PRACTICES AND TRENDS
Lessons for the Corporate Secretary: The Five Key Take Aways

Sponsored by Diligent
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3. Brazil – Brazilian Institute of Corporate Governance (IBGC)
4. Canada – Governance Professionals of Canada (GPC)
5. Hong Kong/China – The Hong Kong Institute of Chartered Secretaries (HKICS)
6. India – The Institute of Company Secretaries of India (ICSI)
7. Indonesia – Indonesian Corporate Secretary Association (ICSA)
8. Kenya – The Institute of Certified Public Secretaries of Kenya (ICPSK)
9. Malaysia – The Malaysian Institute of Chartered Secretaries and Administrators (MAICSA)
11. Singapore – Chartered Secretaries Institute of Singapore (CSIS)
12. Southern Africa – Chartered Secretaries Southern Africa (CSSA)
13. United Kingdom – The Institute of Chartered Secretaries and Administrators-UK (ICSA)
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As the leading provider of secure corporate governance and collaboration solutions for boards and senior executives, Diligent is proud to sponsor the launch of CSIA’s ‘Global board evaluation practices and trends: Lessons for the Corporate Secretary’ paper. Diligent recognises the pivotal role played by CSIA and their member countries globally and is pleased to partner with them in this initiative.

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1. INTRODUCTION

Board effectiveness evaluations have become a standard part of annual board cycle routines since the Cadbury report was published in the United Kingdom in 1992. The report contained a number of recommendations for improving the governance of boards of directors, of which evaluation of performance was a key aspect. Ever since this introduction, board effectiveness evaluations have evolved and now regularly contain extended elements; such as evaluating the chairman, committees and effectiveness of individual directors. Evaluation processes have matured significantly over the past few years and have become a more regular feature with many codes of good corporate governance internationally recommending an annual self-evaluation by the board with external assistance every third year, so as to also ensure some periodic objectivity in the procedures.

Given that virtually all large and listed companies are now adhering to effectiveness evaluations, a valid question to be asked is whether these evaluation processes add value to the work of the board, or have they become an exercise to be noted in the annual or integrated report to make sure investors do not ask tough questions.

Equally relevant; regular questions have emerged of who would be best placed to perform such evaluation and how are questionnaires and processes structured to extract the most value from the process.

Country evaluation practices and maturity vary quite significantly, influenced by early adoption and the development and transition of governance best practices and regulation: the ability for countries to therefore learn from each other’s successes and failures in this area offered an opportunity for greater investigation.

In order to answer these and other pertinent questions, CSIA, in collaboration with its sponsors, completed research on board evaluation practices and trends in the second half of 2017.

This was the first initiative of its kind undertaken by CSIA, as no previous thought leadership papers had included a research component. Valuable lessons were learned in the process that will be applied in such future endeavours.

2. RESEARCH METHODOLOGY

Objectives

The objectives of the research were to, **inter alia**, establish:

- Board evaluation practices and processes in different countries.
- The individuals typically responsible for / involved in the evaluation process.
- Whether evaluations have been completed in the last year and whether any are planned for the following year, as well as general frequency.
- The manner in which evaluations are generally completed and especially whether these are historically focused or focused on the future.
- The extent of technology used in the process.
- Whether evaluation processes were reported on and the type of reporting.
- Whether the recommendations from evaluation processes were implemented, whether it improved performance as well as whether evaluations generally were deemed to add value.

Although the research evaluated a broad range of questions and areas, the recommendations contained in the paper, as in previous CSIA thought leadership papers, are focused on the Corporate Secretary / Governance Professional. It is acknowledged that many different bodies of knowledge exist on the subject of board evaluations and this research was intended to complement those by focusing specifically on the role of the Corporate Secretary / Governance Professional. This focus was in fact confirmed by the research as appropriate because of the number of evaluation processes where such an individual played a critical role.
Scope

Company representatives were sent electronic invitations to complete a survey on their board evaluation experiences. Responses were obtained from 18 countries, of which China, USA, India, South Africa and Zimbabwe were predominantly represented.

380 responses were received from all types of companies.

Figure 1.1 Country and Company type responses

Figure 1.2 Responses by company type
Participants

Individuals that completed the survey included:

- Corporate Secretaries / Governance Professionals (the largest majority of participants)
- Legal Counsels
- Executive Directors
- Non-executive Directors
- Chief Executives
- A number of ‘other’ not falling into any of the above categories

Figure 2. Designated persons responding to the survey
3. RESEARCH FINDINGS

Board evaluation practices and processes in different countries

The responses to the survey question on whether board evaluation was mandatory or voluntary in a particular country and whether it was required by legislation or codes of good practice are indicated in Figure 3, where it is clear that respondents were not universally convinced of the relevance of the local code or statutory requirements.

For countries such as the UK, United States, India and South Africa with clear prescriptive guidance on the evaluation of board performance, particularly for listed entities, it is interesting that there is a minority component of respondents from listed companies that considered board effectiveness evaluations as voluntary. It is possible that some respondents had regarded legislation as mandatory and codes of good practice as voluntary, even where such codes have been endorsed by an exchange or where the exchange requires compliance or application of such codes.

The only countries with conclusive statistics were Botswana, Canada, Dominican Republic, Israel and Uganda, where 100 per cent of respondents had indicated that board evaluation was not mandatory, but these countries had very low response rates, and should therefore be interpreted with caution.

Figure 3 Responses on whether board effectiveness evaluations are compulsory for the entity

Although not contained as part of the survey, a brief overview of the requirements for some of the countries surveyed, some additional countries, as well as the Organisation for Economic Cooperation and Development (OECD) principles are included below for information:
<table>
<thead>
<tr>
<th>Country</th>
<th>Board Evaluation Requirements</th>
</tr>
</thead>
<tbody>
<tr>
<td>Argentina</td>
<td>Code of Good Practices in Corporate Governance (The National Securities Commission Resolution 516/07) clause 10. The board of directors is required to assess its performance before the annual ordinary shareholders’ meeting.</td>
</tr>
</tbody>
</table>
| Brazil                  | Instituto Brasileiro de Governança Corporativa Code of Best Practice of Corporate Governance Clause 2.18: A formal assessment of the performance of the Board and each of the Directors must be made on a yearly basis.  
  ▶ The assessment system should be adapted to each organisation’s circumstances. It is important that the assessment be supported by formal processes, with a well-defined activity scope and qualifications.  
  ▶ The Chairman is responsible for performing this assessment, and participation of external specialists may contribute to an objective process.  
  ▶ Individual assessment – particularly as regards presence, attendance, and involvement/partaking in meetings (including their level of distraction during the meeting to perform unrelated activities) - is critical for the nomination of directors in future re-elections. |
| G20/OECD               | G20/OECD Principles of Corporate Governance 2015  
  Principle 4: Boards should regularly carry out evaluations to appraise their performance and assess whether they possess the right mix of background and competences.  
  ▶ In order to improve board practices and the performance of its members, an increasing number of jurisdictions now encourage companies to engage in board training and voluntary board evaluation that meet the needs of the individual company.  
  ▶ Particularly in large companies, board evaluation can be supported by external facilitators to increase objectivity. |
| India                   | The Companies Act, 2013 (the Act) requires formal annual evaluation of the Board, its committees and individual directors. |
| Malaysia                | Malaysian Code on Corporate Governance  
  Principle A: Board leadership and effectiveness  
  ▶ The board should undertake a formal and objective annual evaluation to determine the effectiveness of the board, its committees and each individual director.  
  ▶ For large companies: the board should engage independent experts periodically to facilitate objective and candid board evaluations. |
| South Africa            | King IV™ Report on Corporate Governance for South Africa 2016 (King IV™)  
  Principle 9: The governing body (board in this instance) should ensure that the evaluation of its own performance and that of its committees, its chair and its individual members, support continued improvement in its performance and effectiveness.  
  ▶ The governing body should assume responsibility for the evaluation of its own performance and that of its committees, its chair and its individual members by determining how it should be approached and conducted.  
  ▶ The governing body should appoint an independent non-executive member to lead the evaluation of the chair’s performance if a lead independent is not in place.  
  ▶ A formal process, either externally facilitated or not in accordance with methodology approved by the governing body, should be followed for evaluating the performance of the governing body, its committees its chair and its individual members at least every two years.  
  ▶ Every alternate year, the governing body should schedule in its yearly work plan an opportunity for consideration, reflection and discussion of its performance and that of its committees, its chair and its members as a whole. |
| United Kingdom          | UK Corporate Governance Code 2016  
  Principle B.6: The board should undertake a formal and rigorous annual evaluation of its own performance and that of its committees and individual directors.  
  ▶ Evaluation of the board should consider the balance of skills, experience, independence and knowledge of the company on the board, its diversity, including gender, how the board works together as a unit, and other factors relevant to its effectiveness.  
  ▶ Individual evaluation should aim to show whether each director continues to contribute effectively and to demonstrate commitment to the role (including commitment of time for board and committee meetings and any other duties).  
  ▶ Evaluation of the board of FTSE 350 companies should be externally facilitated at least every three years. |
| United States of America| NYSE: Corporate Governance Guide  
  The NYSE requires all listed committees and their audit, compensation, and nominating committees to perform self-evaluations. The requirements are found in Listed Company Manual Section 303A.09 (board), 303A.07 (audit committee), 303A.05 (compensation committee), and 303A.04 (nominating committee). Nasdaq does not require evaluations to be conducted. |
From Figure 3.1, it is pleasing to note that companies in some countries, such as the USA, United Kingdom, Zambia, New Zealand, Uganda and Canada perform evaluations even in instances where it is not prescribed. A country like India however seems to be more motivated by the regulatory requirement.

In most of the other instances, the positive and negative responses had been very similar, thus not providing a clear indication that companies have embraced evaluations regardless of whether they are formally required or not.

100% of respondents from Botswana, the Dominican Republic, Israel and Tanzania had indicated that evaluations were not performed voluntarily, but this should once again be interpreted with caution due to the low number of respondents from these countries.
Figure 3.2 indicates that the requirement for board evaluation is driven by all three factors (Corporate Governance code, listings requirements and statute). In India legislation or statute plays the dominant role, while in South Africa King IV™ was indicated as mostly driving the requirement. In the USA there is a balance between listings requirements and prescription from a code.

In many countries the listings requirements do not per se contain a requirement for board evaluation, but it however requires application of or compliance with the applicable Corporate Governance code, which in turn contains said requirement, which may have impacted some of the responses.

It may also be that some respondents had misinterpreted ‘statute’, as an independent search for such statute in some of the countries having elected such, had proven unsuccessful (inter alia Zimbabwe, South Africa and Brazil).

Respondents had not provided explanations for ‘other’ and it is therefore unclear what these refer to.

Figure 3.3 Required frequency for board evaluation

Figure 3.3 confirmed that evaluations were predominantly required on an annual basis. The almost balanced view in South Africa clearly being influenced by the change brought about by King IV™, suggesting a ‘formal’ evaluation be conducted every second year, albeit that a discussion by the board should still be taking place in the alternate years.
Figure 3.4 Requirements regarding the use of independent facilitators

As depicted in Figure 3.4, the majority of respondents indicated that the requirements were not prescriptive on the usage of independent facilitators, although there were a number of respondents (especially in India) that suggested an independent facilitator would always be required. It may be that some respondents answered this question based on perceived best practice and not necessarily what was contained in the requirements.

Once again, no explanations had been provided for ‘other’.

Responsibility

In the instances where evaluations have taken place the person / entity responsible vary widely, as indicated in Figure 4.

Most evaluations performed for listed entities are facilitated internally, mostly by the Corporate Secretary / Governance Professional, but also through the Chairman and Lead Independent Director. In 84% (ignoring "Other") of cases the review is internally driven, with external specialists and the local Institute of Directors (IoD) performing the remainder. For all types of companies this distribution is:

- Corporate Secretary / Governance Professional – 31%
- Other – 17%
- Lead Independent Director – 16%
- Chairman – 14%
- Independent Specialists – 14%
- Auditors – 5%
- IoD – 4%
From the above, it is clear that in most instances the evaluation process is facilitated by the Corporate Secretary / Governance Professional.

In cases where evaluations were performed by an external party, on the question whether it was a good process and value for money: 82% of respondents answered in the affirmative, with 12% not satisfied, and 7% not sure.

It is encouraging that most companies were satisfied with the external providers, due to so many of the corporate governance codes recommending regular independent evaluation and “perceived value add” should assist in convincing those boards not yet willing to embrace independent reviews of its value (albeit, only, if at the right price, as also discussed elsewhere in the paper).

The following were some of the reasons offered by those dissatisfied:

- Questionnaires were not at an acceptable standard.
- Budgeting (it is inferred that this relates to higher than anticipated costs).
- Insufficient detail in reports.
- Quality and service.
- Misinterpretation of results.

Figure 4 Responsible party for performing the evaluation per company type

Where evaluations were performed by external parties, the associated costs varied quite dramatically, but naturally was impacted by the extent of the evaluation.

Only a small number of respondents completed the question and it is therefore difficult to draw a correlation between these answers and the perception of value for money discussed above.

The most expensive evaluation cost USD75 000: Listed, USA and included a questionnaire and interviews with all directors.
The currency referenced for the most expensive evaluation in India (a large private company) was unclear, but assuming it was quoted in Indian Rupees, it equated to circa USD8,000 and included questionnaires and interviews with some directors.

On the lower end of the scale it was unclear whether the amount was per director, as some were as low as USD100 to USD750. Even though limited responses were captured, the variances were quite significant. Considering that ‘costs’ were also specifically raised as a reason for companies not having completed an evaluation in the past year, as well as the references made by those who had been dissatisfied with their external provider (albeit very few), external service providers will clearly have to continue to focus on the cost and perceived value received in order to not inadvertently negatively impact directors’ willingness to perform evaluations.

**Evaluation in the last 12 months**

The majority of companies surveyed indeed performed a board evaluation during the last year: 57% indicated that this had taken place, 35% of companies had not performed an evaluation and 8% had been uncertain (Figure 5). In many instances, the reason given for not completing an evaluation was that it was not required by regulation, thus seemingly a large number of companies that do not yet believe in the fundamental benefits of evaluation even when not mandatory or strongly suggested (despite the responses discussed earlier on many companies voluntarily performing evaluations).

Some of the other reasons given for not performing an evaluation included:

- It was not required by regulation and the board is not convinced of the benefit.
- It is conducted only every third year.
- It is something the organisation has never considered (Not-for-profit, Zimbabwe).
- Although the board knows about evaluations, it has not been completed because the board does not fully appreciate the importance of board evaluations (Not-for-profit, Zimbabwe).
- Costs associated.

![Figure 5: Board evaluations conducted in the last year (by Country)](image-url)
As to be expected, the majority of listed companies had performed an evaluation in the past year. It is pleasing to note the number of non-listed companies that also performed an evaluation in the past year (Figure 6).

Manner in which evaluations were completed and historic or future focus

Respondents were asked what the evaluations entailed, with the spread in answers reflected in Figure 7.

Most processes focused on questionnaires plus another component to obtain greater insights on the issues reflected in the responses to such questionnaires. Questionnaires with discussions at the board was most popular.

There was a relatively high frequency of processes with only an observation of a board meeting and a peer evaluation as a combination to conduct the review process.
Most evaluation processes focused on a combination of issues, as reflected in Figure 8, with a small component used for compliance/formalistic purposes, which is quite pleasing given that historically the nature of many evaluation questionnaire templates focused on whether the board had complied with their charter/terms of reference during the period under review and not necessarily how well they performed or what value had been derived for the company through their oversight.

Most respondents failed to comment on what 'other' meant (Figure 8) and the few that did comment used ‘other’ to reference the drop-down choices from the previous question (Figure 7) in their own manner or expanded on the choices, inter alia: “The board, under the direction of the company secretary, had an open and honest discussion of the workings of the board and the committees, looking at how the board has functioned over the prior year, how members have interacted and resolved issues over the past year; the need for changes and improvements to the board and the manner in which these changes need implementation.” It therefore unfortunately did not provide additional insights into processes and practices.

When individual director review formed part of an evaluation process, in the most instances it included both a peer- and self-review component (Figure 9). When these statistics are compared to the individual director improvement experienced post an evaluation, although for every one case no improvement was seen after a peer review process, there were three cases where improvement was noticed. The improvement experienced reinforces the need for a focus on the individual director as well and not only on the board as a collective.

Where ‘no’ was indicated, companies had not included an individual director evaluation component in the process.
Encouragingly, and in support of the basic philosophies on evaluation and performance, companies that did undergo evaluation processes saw more improvement than companies which had not conducted such evaluations. This was true for all types of companies (Figure 10).

Figure 9 Components of individual director review processes

Even though the results indicated that there were significantly more companies reporting improvement in board effectiveness where the board had undergone such processes, the data was inconclusive on whether a higher frequency of reviews was more beneficial for a board.

Figure 10 Improvement based on whether or not a board evaluation process has been conducted

Use of technology

The use of technology is seemingly becoming more prevalent in the process of evaluation, but still in the minority. As to be expected, the highest utilisation of technology occurred in listed companies, although still a relatively small percentage as illustrated in Figure 11.
The use of technology, even though still in the minority of cases, was most utilised in the USA and South Africa at around 40% of the time, for countries where the data was significant. On average, across all countries, technology was only used in 29% of cases.

Interesting to note that the use of technology in the evaluation process seemed to affect whether improvements were noticed as a result of such reviews. There was a positive correlation between the use of technology and improvements noticed; this was even true for small companies.

**Internal Reporting**

In most cases companies produced a formal report on the review process, as shown in Figure 12.

There were indications that the use of a formal report influenced whether improvements in performance were noticed.

Of those who utilised a formal report and who answered either ‘yes’ or ‘no’, approximately 85% saw an improvement in performance post the evaluation process. Without a formal report this percentage dropped to approximately 75%.
Recommendations Implemented

An evaluation process is only as good as the improvement that occurs post such and the recommendations that are made for improvement are therefore a critical element of the process. Respondents were therefore requested to indicate the percentage of recommendations that had been implemented during their evaluation process.

The majority of the respondents had not completed the question on whether recommendations post an evaluation process were implemented (Figure 14). In 75% of these cases it was however understandable, as they had not completed an evaluation process in the last year.

Of concern is the number of responses indicating ‘not applicable’ (Figure 14), as in a 100% of those cases, the companies had in fact completed an evaluation process in the past year. Almost 52% of the companies in this grouping were domiciled in the United Kingdom and the United States of America. It could possibly be argued that these countries have more mature boards or more mature board evaluation processes, but one could equally question whether the processes were in fact sufficiently robust or whether it may be indicative of a “tick-box” approach to board evaluation (as also referenced later in the paper).
Equally concerning is that out of the eight companies that had indicated that ‘none’ of the recommendations had been implemented, six of those were listed companies.

Pleasingly however, is the total number of companies that had indicated ‘all’, ‘majority’ and ‘50%’ of the recommendations had been implemented (Figure 14). It is probably to be expected that the majority of the ‘majority’ in turn was made up of listed companies, as their evaluation processes generally received more focus by stakeholders and are referenced in integrated or annual reports (Figure 15).

Figure 15 The company types (in percentage) comprising the companies that had implemented the ‘majority’ of recommendations

Repetition of the same process

There are some interesting insights regarding the repetition of evaluations vs improvements seen: It is easy to accept that the more you perform the same process the better you will get at it, hence four times or more should be the most beneficial. However, more in this case did not necessarily mean better.

With large private companies, improvement was almost 100% with only one or two repetitions of the same type of evaluation, while at four times there were some companies not experiencing any improvements. This could be interpreted that large companies were able to deal with issues identified in initial processes, whilst at higher frequency such issues had been resolved and no further improvement was noticed.

The same was noticed in listed companies, where close to 100% of them experienced improvement with one evaluation, reducing when they repeated the same process twice or more. It is therefore more probable that the more a company performs the same type of evaluation the more complacent they become, which in turn negatively affects improvements experienced post the process.

1 Repetition refers to the same type of evaluations being repeated year after year, not how many evaluations per year. This question refers to “How many times have you repeated the same type of board evaluation process?”
**External Reporting**

In respect of external reporting in an integrated, annual or other relevant governance report, it seems that most companies still only report on whether an evaluation was in fact conducted or not (60% of the responses).

25% in total showed more transparent or progressive reporting in that:

- 12.5% of respondents had included corrective action taken over the past year to address previously identified deficiencies and a summary of scores / results and key recommendations for action.
- 12.5% of respondents had included a summary of scores / results and key recommendations for action.

**Value Add**

Probably one of the most significant questions asked was whether respondents viewed board evaluations as valuable and value adding. This was a free text question and a large variety of responses received from very positive, positive, average and some quite negative.

Pleasingly however is that a clear majority of respondents had indicated that it does indeed add value, albeit that many responses were conditional on certain requirements being met, inter alia, real transparency, honesty, assistance from independent consultants, taking the recommendations seriously and not merely completing it for compliance sake.

**Listed, USA:** “Only adds value when recommendations are implemented!”

**Small private, India:** “Yes! It should be made mandatory for public and private companies.”

**State owned, Zimbabwe:** “Board evaluation adds value when: (1) taken seriously by the board, (2) done independently and objectively, (3) when shareholders and key stakeholders are made aware of the evaluation results, (4) when recommendations are implemented, (5) when you have a capable chairperson AND (6) when the board members are empowered by a systematic board development programme.”

On the other side of the response spectrum, some of the negative comments included (quoted verbatim)

**Listed, South Africa:** “Debatable.”

**Listed, China:** “NO. It is up to the culture of the company. However, in many cases, it is only for the goal of business performance, the intention of actual controllers or become formalism.”

**Large private, India:** “It does not add value, as Board of directors arrange to self-appraise themselves and each appreciates the other, with no significant contribution towards company business, growth and future strategy.”

**Listed, South Africa:** “In previous years, questionnaires were completed - a tick box type of appraisal with space for commentary - many board members did not bother with added comments. Also took months for the evaluations to be completed, and were performed under duress. This form of open discussion, when everybody has an opportunity to discuss matters seems a more effective means of appraisal, if the members are not scared to open up. If they are, they should not be sitting as independent directors on a board in the first place…”

**Listed, China:** “Not sure. Perhaps good for evaluating the independent non-executive directors. But for executive directors and non-executive directors who are the family members of substantial shareholders, it is difficult to say anything if they do not perform well.”
Listed, Brazil: “I’m cautious about them. I believe that disturbing agents, people who ask difficult questions, who don’t simply agree with everything, who challenge management and the rest of the board, add a lot of value, yet tend to be not so well evaluated. They are often perceived as inconvenient. Especially when appointed by minority shareholders.”

Listed, India: “Not really, unless it is done sincerely rather than to just fulfil a statutory requirement.”

Of concern is that the negative responses were concentrated within listed companies.

Evaluation in the forthcoming 12 months

65% of respondents will be completing an evaluation in the forthcoming 12 months (compared to 57% in the preceding year)

A significant number of respondents indicated that they would be completing an evaluation in the forthcoming 12 months, as indicated in Figure 16 below.

Types of companies planning to perform an evaluation in the forthcoming 12 months

Figure 16 The company types (in absolute numbers) planning to perform an evaluation in the forthcoming 12 months

15.3% of respondents however indicated that they would definitely not be completing an evaluation, whilst the remainder of respondents (19.7%) had not answered this question.

Of the 15.3% not intending to complete an evaluation in the forthcoming year, 13.8% (8 companies) are listed entities.

36 Respondents had indicated their reasons for not planning an evaluation in the forthcoming year. Most respondents indicated that they were not completing such because of it not being mandatory, whilst in three cases it was the “in-between” year in relation to recommended evaluations (inter alia a reference to the changes brought in through King IV™, which recommends a formal process only every second year, as referenced earlier in the document).

Pleasingly, there were only two instances where the respondents expressed clear negativity by the Board towards considering an evaluation process.
4. FIVE KEY TAKE-AWAYS FOR THE CORPORATE SECRETARY

4.1. The Corporate Secretary / Governance Professional plays a critical role in the board effectiveness evaluation process

The research clearly indicated that nearly 1/3 (31%) of evaluation processes are spearheaded by the Corporate Secretary / Governance Professional and confirms the critical role played by the Corporate Secretary / Governance in the evaluation process, either through coordination or through independent or joint facilitation of the evaluation process.

In order to perform this role effectively, it is important that the Corporate Secretary / Governance Professional understands why board evaluation (and in fact board performance generally) matters and the value that can be added through a good board evaluation process. As a result of human nature, many directors feel uncomfortable with the idea of being evaluated. The research also clearly indicated that a material number of companies still do not perform evaluations if it is not required by regulation. An important aspect of the Corporate Secretary’s / Governance Professional’s role therefore entails convincing directors of the need for and value to be derived from a good board evaluation process, whether it is mandatory or not.

As mentioned earlier, the majority of corporate governance codes an in some instances Statute or listed exchange requirements, recommend board evaluations be conducted as part of ensuring good corporate governance. Although these requirements are mostly not legally binding, courts have in some jurisdictions, like South Africa, made reference to such in their rulings, thereby reinforcing their relevance and importance as benchmark to measure whether directors have adequately discharged their duties. Reinforcing this aspect to boards can also assist in re-emphasising the importance of board evaluations as a critical aspect in the implementation of good corporate governance.

Therefore, the Corporate Secretary / Governance Professional should not only stay abreast of board evaluation best practices, but also consider establishing a data base of information supporting the message to be conveyed to directors: examples of such include research data on the impact of good governance on share performance and financial metrics generally, information on corporate failures and why directors would want to strive towards better performance generally, as well as information on directors having been held accountable for failures, or liable for poor decisions and poor performance.

It is also vital that the Corporate Secretary / Governance Professional comes to terms with the barriers present within the company which prohibit effective board evaluations. Such barriers may include an inappropriate balance between executives and non-executives; a lack of independence and conflicts of interest; a clash of personalities leading to a competitive environment and a lack of knowledge, skill and expertise. The Corporate Secretary / Governance Professional will need to expect such barriers at some point and navigate the way to reaching a harmonious and effective environment where board evaluations become a welcomed initiative as opposed to a laborious task – and ultimately an environment which makes good corporate governance a top priority.

Many corporate governance codes also publish bespoke guidelines on board effectiveness which can serve as a useful reference in conversations with the Nominations Committee or board. Chapter 10 (Conducting effective board and director evaluations) of the NYSE: Corporate Governance Guide is one such example that contains excellent practical tips for consideration.

This take-away also extends to the research finding that repeating the same process too many times may negatively affect the improvements post an evaluation. The role of the Corporate Secretary / Governance Professional thus also extends to convincing the board of refreshing the process regularly to ensure it remains robust enough to retain the intended benefit.
4.2. Use of appropriate technology

In the past two years a number of technological solutions, either bespoke for board effectiveness evaluation or incorporated in board portal solutions, have been introduced to assist the Corporate Secretary or any other facilitating party to conduct the questionnaire portion of the evaluation process electronically.

These solutions are generally quite affordable and can assist greatly in the efficiency of the process.

Some of the typical benefits included:

- Easy questionnaire generation based on templates or examples.
- Continuity: if the solution is used both when the company evaluates internally and when externally facilitated, historic data is maintained in one source which enables improved data mining. Some solutions also allow directors to securely review their previous questionnaire responses to provide them with context and reference. That way, they can simply change what they wish and resubmit – taking less time and effort, and allowing them to benchmark their own progression from year to year.
- Possibility to gain access to benchmarking data on an anonymous basis from other companies utilising the same solution.
- Security and anonymity: while it does not necessarily follow that the use of hard copy documents is less secure than using a databank / technological solution, it should be noted that hard copy documents with sensitive and confidential information can definitely be more easily misplaced or inadvertently accessed. There is also an argument to be made that without technology, it’s nearly impossible to make the process fully anonymous, as any paper surveys can be easily traced back to their authors and the level of human intervention inadvertently higher than with the use of technology. Without anonymous means of collecting evaluation feedback, directors might never feel fully comfortable providing candid feedback. Of critical importance would be to choose a technology solution with globally recognised security protocols. In the event of a successful hack of a databank this could lead to the identity (and views expressed through an evaluation process) of individual companies, and even certain directors, being publicly revealed. A critical aspect of a trusted board evaluation process, is confidentiality and such should be protected, maintained and guaranteed as best possible. The Corporate Secretary / Governance Professional should ensure that whatever solution or process is chosen, directors feel comfortable and that they are able to trust the process.
- Easy management of circulation process, ability to track completion and send reminders.
- Automated basic reporting with the option to create visual summary charts and graphs.
- Generally aligned with the evolution of processes towards greater utilisation of technology.

It is therefore recommended that, subject to affordability, companies consider the utilisation of appropriate technology in the pursuit of a more efficient and effective board effectiveness evaluation process.

4.3. Ensure the board effectiveness evaluation process is concluded through a formal report

The research indicated increased improvement post an evaluation process where the board effectiveness evaluation process concluded with a formal report (Figure 10). Although this may be standard practice when evaluations are facilitated by external parties, internally facilitated processes do not necessarily always properly conclude the process.

When the Corporate Secretary / Governance Professionals is responsible for the process, ensure that a detailed report is prepared which, inter alia, highlights:

- A comparison to previous years’ results, indicating repetitive issues or improvements achieved.
- Key deficiencies and proposed remedial actions to address the deficiencies (including responsibility and deadlines).
4.4. Take accountability for the coordination of remedial actions / continuous performance discussions

The report is just the initial step in the improvement process. The research also emphasised that perceived value add through an evaluation process is affected by the number of recommendations implemented: this should be regarded as a critical success factor in the overall process.

The Corporate Secretary / Governance Professional should therefore ensure that progress against the agreed remedial actions is discussed at least quarterly in order to retain momentum.

In many instances, remedial steps include training or development for the board as a whole or for individual directors: the Corporate Secretary / Governance Professional should effectively facilitate or coordinate the agreed interventions including taking steps to refresh the board, if required, to address a serious issue related to a director’s performance or behaviour. One important role of peer reviews is to take action to refresh the board if a director is no longer the right “fit.”

Many board evaluations also request information on what should, for example, be retained or removed from agendas and what strategic matters should be added in the forthcoming year: the Corporate Secretary / Governance Professional should ensure that these changes are made to the agenda.

Some boards have even evolved to the extent that they have a dedicated agenda item at each board meeting dealing with performance: directors have open and frank discussions on what has worked and what requires improvement from a particular set of meetings. Depending on the maturity of the board evaluation processes, consider proposing such continuous performance discussion to the chairman for consideration – this way performance discussions and a desire to improve performance becomes part of the board’s DNA, and goes a long way in ensuring the continued efforts to function in accordance with good corporate governance standards.

4.5. Challenge the company to report transparently and openly

The role of an annual or integrated report in providing transparent and clear insight into the company and the operation of the board has been increasingly emphasised in recent years. It is often common practice that the Corporate Secretary / Governance Professional is responsible for preparing the governance report or certain information to be disclosed in the annual / integrated report, which typically includes the information disclosed on the board effectiveness evaluation process.

Although the research indicated that many companies are still only reporting very basic information, we are seeing more corporate governance codes requiring greater detail and additional transparent disclosure of board effectiveness evaluation processes and outcomes.

Some examples include:

- **Malaysian Code on Corporate Governance**, which requires the Nominating Committee of large companies (companies on the Bursa top 100 index or companies with a market capitalisation of RM2 billion) to disclose:
  - How the evaluation was conducted, the criteria used such as the assessment of fit and properness, contribution and performance, calibre and personality of directors.
  - Whether an independent expert was engaged, or internally facilitated.
  - Key strengths and/or weaknesses that were identified from the evaluation.
  - Steps or enhancements proposed to be undertaken to mitigate or address the weaknesses identified.

- **Indian Companies Act, 2013**
  - Section 134 of the Companies Act, 2013, inter alia, specifies the contents that are required to be part of Board’s Report.
  - According to Section 134 sub-section 3(p) read with Sub-rule (4) of Rule 8 of the Companies (Accounts) Rules, 2014 every listed company and every other public company having paid-up share capital of twenty-five crores or more calculated at the end of the preceding financial year should include in the report by its board, a statement indicating the manner in which formal annual evaluation has been made by the Board of its own performance and that of its committees and individual directors.
- **UK Corporate Governance Code**, which requires that:
  - The board should state in the annual report how performance evaluation of the board, its committees and its individual directors has been conducted.
  - For FTSE 350 companies, where the evaluation has been externally facilitated (required every three years), the external facilitator should be identified in the annual report and a statement made as to whether they have any other connection with the company.

In the revised UK Corporate Governance Code 2017/18, currently open for public comment, the disclosure requirements have increased as follows:

- The board should state in the annual report how performance evaluation of the board, its committees and its individual directors has been conducted.
- For FTSE 350 companies, where the evaluation has been externally facilitated (required every three years), the external facilitator should be identified in the annual report and a statement made as to whether they have any other connection with the company.

- **King IV Report on Corporate Governance for South Africa 2016**, which requires
  - A description of the performance evaluations undertaken during the reporting period, including their scope, whether they were formal or informal and whether they were externally facilitated or not.
  - An overview of the evaluation results and remedial actions taken.
  - Whether the governing body is satisfied that the evaluation process is improving its performance and effectiveness.

Even where the country requirements possibly do not require a significant level of disclosure, proactively source examples of good reporting to share with the board in order to encourage them to improve their disclosures.

Based on the guidance from more mature governance codes, it is suggested that good disclosure will include:

- A reflection on prior year issues and how those have been addressed or improved.
- The process followed and external facilitator details (if applicable).
- Possibly scores, if applicable.
- Themes chosen and why.
- Key issues identified.
- Remedial actions planned and timelines.
5. CONCLUSION

It has been more than three decades since board evaluation practices were originally introduced as part of good corporate governance.

The research clearly confirmed that evaluating the performance of the board has become common practice in many countries, with, as expected, a higher prevalence in listed and larger private companies (unfortunately the interpretation of ‘mandatory’ and ‘voluntary’ however seemed to have influenced the reliability of some of the responses). Although many companies indicated that evaluations were also completed on a voluntary basis, it equally showed that in many instances companies have not necessarily embraced board evaluation, if not mandatory, as yet.

Despite this, the survey showed that 57% of respondents had completed an evaluation process in the last year and this increased to 65% planning to complete one in the forthcoming year. Those that did not complete such or did not plan to complete such was mostly because it was not a requirement, although some were also impeded by costs and the board not understanding or supporting the value or benefit to be derived from an evaluation process.

As mentioned in the key take-aways for Corporate Secretaries / Governance Professionals, their role in the evaluation process was confirmed.

The survey confirmed that the basis for most evaluations entailed a questionnaire (be it through a technological solution (still used fairly infrequently) or in a paper format) and some form of interviews or engagement to gain greater insight. Pleasingly the focus of evaluations has also shifted from merely being focused on conformance or compliance (although there were still a number of companies only focusing on this aspect), but most companies in fact focused on a variety of holistic aspects (conformance, performance, the future strategy etc), performance or a combination of performance and conformance.

The survey showed that most companies still only reported externally on whether an evaluation has been completed or not and does not include any qualitative information on the evaluation, the board’s performance or the plans for improvement. As discussed in item 4.5 above, this is an area where meaningful improvements can be made and it is suggested that the Corporate Secretary / Governance Professional play a key role in this aspect.

The results indicated that improvements in board and individual performance were experienced in instances where evaluations were performed, however some concerns were highlighted in relation to a few companies indicating that recommendations post an evaluation process had not been implemented at all (a number of which were listed companies). The risk was highlighted that where the same evaluation process was repeated too often, it may affect the benefits and improvements experienced, possibly because of complacency with the process.

Very pleasing however, was the confirmation that respondents indeed regarded board evaluations as value accretive and more so when it was taken seriously by the board: a number of respondents emphasising this fact, which probably holds true for all interventions undertaken by a board. This again reinforcing the important role to be played by Corporate Secretaries / Governance Professionals in convincing their boards not merely to undertake an evaluation process, but to do so fastidiously and with purpose.

The Corporate Secretaries International Association Limited believes that the learnings articulated in this paper will assist Corporate Secretaries and Governance Professionals in this mammoth task.

We would like to thank all participants of the survey that assisted in the formation of this body of knowledge.

We wish you all of the best with the next board evaluation process you undertake: may it be a valuable process for you, your board and your organisation.
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Agenda

11:00am – 11:45am  Registration and networking drinks
11:45am – 12:45pm  Company and Product Updates
12:45pm – 2:00pm  3 course lunch
2:00pm – 3:00pm  Expert Workstations:
   1.  Diligent Minutes™
   2. Questionnaires
   3. Diligent Messenger™
   4. Updates for Admins
   5. Blueprint OneWorld™
3:30pm    Close of the Event

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