

Board Evaluation Exercise

[BEE]

Externally facilitated Board Evaluation Service
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What the Companies Act, 2013 state?

Section 134 (3) There shall be attached to statements laid before a company in general meeting, a report by its Board of Directors, which shall include —

(p) in case of a listed company and every other public company having such paid-up share capital as may be prescribed, **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;**

Section 178. (2) The Nomination and Remuneration Committee shall identify persons who are qualified to become directors and who may be appointed in senior management in accordance with the criteria laid down, recommend to the Board their appointment and removal and **shall carry out evaluation of every director's performance.**

SCHEDULE IV [See section 149(8)] CODE FOR INDEPENDENT DIRECTORS

VIII. Evaluation mechanism:

- (1) The performance evaluation of independent directors shall be done by the entire Board of Directors, excluding the director being evaluated.
- (2) On the basis of the report of performance evaluation, it shall be determined whether to extend or continue the term of appointment of the independent director.

BEE FAQs

1. What are board evaluations?

Ans. The Board Evaluation Exercise (BEE) is a annual board appraisal exercise that is mandated by law under the Companies Act, 2013. BEE strengthens the performance of the Board and the company thereby leading to enhanced value creation. Each individual director's performance is evaluated against the goals and objectives laid down by the Board at the beginning of the year. It involves performance evaluation of the each director, CEO and Chairman.

2. What is the purpose and benefits?

Ans. BEE is executed in a positive setting to Identify board weaknesses and providing an opportunity for the board to take action to improve itself, allowing the board to assess the value it creates for the company and the efficiency of its internal functioning, acting as an early warning system, which will allow changes to be implemented before problems occur, identifying and overcoming any differences among board members, leading some directors to come to the conclusion that they are not able or willing to put in the time and effort to add value to the board, and then decide that the company's interests would be better served by a change in board membership.

3. Why is the Board being evaluated?

Ans. *Consider the basis and reasons carefully:*

- *Is the board clear on its function and responsibilities?*
- *Is each director clear on their role?*
- *Do the committees understand their roles?*
- *What performance metrics will be used?*
- *Who will collect the information?*
- *How will the information be collected?*

4. How does the typical appraisal process work out?

Ans. *It is led by chairman, assisted by an outside independent and trusted advisor.*

The steps are:

- *Formulate evaluation instrument*
- *Presentation to board and briefing of appraisal process*
- *Confidential interviews (one to one)/ Completed privately by directors*
- *Data collated and analyzed*
- *Presentation and board discussion, improvement plans/ road maps*

Characteristics of successful evaluations

- The purpose, objectives, process, and outcomes of the evaluation have been fully explained and discussed with all concerned parties
- Strict confidentiality
- The chairman and the CEO play a key role in developing and approving the process
- Evaluation is regular (typically annual)
- Benchmarks of board, committee, executive, and company effectiveness should be used as indicators of performance
- Board should receive a full report
- Process should be evaluated to improve the process for the next evaluation



Best Practices (UK Code)

Boards continually need to monitor and improve their performance. This can be achieved through board evaluation, which provides a powerful and valuable feedback mechanism for improving board effectiveness, maximising strengths and highlighting areas for further development. The evaluation process should aim to be objective and rigorous.

An effective board should not necessarily be a comfortable place. Challenge, as well as teamwork, is an essential feature. Diversity in board composition is an important driver of a board's effectiveness, creating a breadth of perspective among directors, and breaking down a tendency towards 'group think'.

Good decision-making capability can be facilitated by:

- high-quality board documentation;
- obtaining expert opinions when necessary;
- allowing time for debate and challenge, especially for complex, contentious or business-critical issues;
- achieving timely closure; and providing clarity on the actions required, and timescales and responsibilities.

