Exploring Board Evaluation Trends

The Premier Corporate Governance Conference
Johannesburg
27 October 2015

Carina Wessels
OVERVIEW

• Introduction to the Corporate Secretaries International Association (CSIA)

• Why evaluate?

• International practices and trends

• The role of technology
OVERVIEW

- Introduction to the Corporate Secretaries International Association (CSIA)
  - Why evaluate?
  - International practices and trends
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• Introduction to the Corporate Secretaries International Association (CSIA)

• **Why evaluate?**

• International practices and trends

• The role of technology
WHY EVALUATE: FUNDAMENTAL STATEMENT

The job of a Director has two components

B. Staying out of trouble
   Doing things right
   \[\text{Conformance / Compliance}\]

A. Move things forward
   Doing the right things
   \[\text{Performance / Success}\]
The job of a Director has two components

B. Conformance / Compliance

- Legal
- Regulatory
- Codes
- Policies

Therefore; Corporate Governance concerns the appropriate board structures, processes and values

A. Performance

- Setting policy
- Strategy
- Competitiveness
- Execution
- Taking risk

- to drive the enterprise forward to achieve the organisation’s Purpose (Performance)
- whilst keeping it under prudent control (Conformance)
DOES GOOD GOVERNANCE PAY?

Source: Deutsche Bank
Global Corporate Governance
Valuing Corporate Governance in South Africa, 19/08/2002
WHY EVALUATE: REASONS FOR FAILURE

Where does it go wrong?

1. Declines resulting from external shocks that were natural, political, or regulatory in circumstances in which the external event could not be controlled or easily anticipated

2. Fraud, accounting problems, ethics violations, and other failures to comply with laws or standards

3. Major operational problems, such as supply chain disruptions, customer service breakdowns and operational accidents

4. Major strategic blunders (e.g. new product or new market failures) or a company caught by a major industry shift, including failed M&A, as well as dramatic shifts in major enterprise value drivers
**WHY EVALUATE: REASONS FOR FAILURE**

Declines resulting from external shocks that were natural, political, or regulatory in circumstances in which the external event could not be controlled or easily anticipated (e.g. USEC and Tsunami)

Fraud, accounting problems, ethics violations, and other failures to comply with laws or standards (Tyco)

Major operational problems, such as supply chain disruptions, customer service breakdowns and operational accidents (BP and Deepwater Horizon)

Major strategic blunders (e.g. new product or new market failures) or a company caught by a major industry shift, including failed M&A, as well as dramatic shifts in major enterprise value drivers (Time Warner and AOL)

- External = 87 (84%)
- Compliance = 7 (7%)
- Operational = 8 (8%)
- Strategic = 1 (1%)

Exhibit: *Why They Fail*

Strategic blunders result in the greatest loss of shareholder value.

Distribution of Bottom Performers by Reason for Failure

- External
- Compliance
- Operational
- Strategic

Change in Enterprise Value

Source: Booz & Company
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On average, 70% of boards undertake a formal review annually.

The figure is higher in:
- The United Kingdom (100%)
- Sweden (87%) and
- Finland (81%)

One in six boards across Europe currently do not undergo any type of performance evaluation.

Responsibility for evaluating the board:
- Chairman (41%)
- Other board members (33%)

*Heidrick & Struggles European Corporate Governance Report 2014: Towards Dynamic Governance*
• Evaluating the Chairman is more likely to be the responsibility of other board members (53%)

• Evaluating the CEO is more likely to be the responsibility of:
  – Chairman (30%) and/or
  – Other board members (52%)

• External v internal:
  – 21% of boards that conduct annual evaluations use external facilitators or consultants
  – A third of boards never use external consultants

• Evaluation methods vary:
  – 78% of boards use questionnaires
  – 65% use open discussions
  – 54% use one-to-one interviews of directors

*Heidrick & Struggles European Corporate Governance Report 2014: Towards Dynamic Governance
**THE SPECIFICS OF BOARD EFFECTIVENESS EVALUATION**

<table>
<thead>
<tr>
<th></th>
<th>Board</th>
<th>Chairman</th>
<th>CEO</th>
</tr>
</thead>
<tbody>
<tr>
<td>The chairman</td>
<td>41%</td>
<td>4%</td>
<td>30%</td>
</tr>
<tr>
<td>A committee</td>
<td>13%</td>
<td>12%</td>
<td>18%</td>
</tr>
<tr>
<td>Senior / Lead independent director</td>
<td>4%</td>
<td>14%</td>
<td>3%</td>
</tr>
<tr>
<td>Board members</td>
<td>33%</td>
<td>53%</td>
<td>52%</td>
</tr>
<tr>
<td>External consultant / facilitator</td>
<td>17%</td>
<td>11%</td>
<td>5%</td>
</tr>
<tr>
<td>other</td>
<td>4%</td>
<td>5%</td>
<td>5%</td>
</tr>
<tr>
<td>No one / not applicable</td>
<td>5%</td>
<td>11%</td>
<td>6%</td>
</tr>
</tbody>
</table>

Percentages in each column may add up to over 100% due to multiple response.

*Heidrick & Struggles European Corporate Governance Report 2014: Towards Dynamic Governance*
The Specifics of Board Effectiveness Evaluation*

There is a clear move:

Are we doing things right? Are we doing the right things?
Contribution Value-add
Structure and process Relationships and dynamics
Succession as process Succession as outcome
The past The future

*Heidrick & Struggles European Corporate Governance Report 2014: Towards Dynamic Governance
NEW-AGE THEMES*

Themes have evolved from ‘rate the effectiveness over the last year’ to ‘what are the challenges...?:

- Deep Business Knowledge
- Diversity Of Thought
- Engaged Leadership
- Strategic Alignment
- Capacity To Adapt
- Leadership
- Talent

*Heidrick & Struggles European Corporate Governance Report 2014: Towards Dynamic Governance
ULTIMATE OBJECTIVE: A WORLD-CLASS BOARD

Foundation Board
- Basic Compliance
  - Satisfy core governance and compliance requirements
  - Define and implement key Board processes

Developed Board
- Forward Looking
  - Basic Compliance
  - Board members competences and capabilities are aligned with requirements of the company’s objectives
  - Core technical capabilities and experience defined and brought onto Board

Advanced Board
- High Performance
  - Forward Looking
  - Basic Compliance
  - High IQ and EQ NEDs, able to be forensic on arguments and engage positively with others
  - Talent focused, mentor execs
  - Global mindset and global networks
  - Strong track record of growth
  - Board skill gaps and succession regularly addressed

World-Class Board
- Strategic Asset
  - High Performance
  - Forward Looking
  - Basic Compliance
  - Works as a team
  - World-class insights
  - In-depth knowledge on best practice but relentless focus on tomorrow
  - Candid on development needs
  - Diversity of views
  - Live the values

Process driven Control Behaviour driven Consult
OVERVIEW

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INCREASED USE OF TECHNOLOGY AS BASIS IN EVALUATION

• Tool dedicated to board effectiveness evaluation
• Customised to evaluate Board, Committees, Chairman, LID, individuals, any others
• Continuously evolving in terms of best available practice
• Complementary to board portals
• Continuity of platform, ability to find trends
• Benchmarking against peer companies
INCREASED USE OF TECHNOLOGY AS BASIS IN EVALUATION

Step-by-step approach for all elements of self-evaluation

<table>
<thead>
<tr>
<th>Account</th>
<th>Questionnaire</th>
<th>Expires</th>
<th>Participants</th>
<th>Complete</th>
<th>In-Complete</th>
<th>Progress</th>
</tr>
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<tbody>
<tr>
<td>Company X</td>
<td>The Company Audit Committee Effectiveness Questionnaire</td>
<td>2015-12-27</td>
<td>6</td>
<td>0</td>
<td>6</td>
<td>100%</td>
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<td>Company X</td>
<td>The Company Board Effectiveness Questionnaire</td>
<td>2015-12-27</td>
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<td>6</td>
<td>100%</td>
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<td>Company X</td>
<td>The Company Chairman effectiveness questionnaire</td>
<td>2015-12-27</td>
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<tr>
<td>Company X</td>
<td>The Company Individual Board Member Effectiveness questionnaire</td>
<td>2015-12-27</td>
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<td>6</td>
<td>100%</td>
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<tr>
<td>Company X</td>
<td>The Company SID Effectiveness Questionnaire</td>
<td>2015-12-27</td>
<td>2</td>
<td>0</td>
<td>2</td>
<td>100%</td>
</tr>
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Showing 1 to 5 of 5 entries
INCREASED USE OF TECHNOLOGY AS BASIS IN EVALUATION

Easy questionnaire management
Easy questionnaire management: Themes within questionnaires

INCREASED USE OF TECHNOLOGY AS BASIS IN EVALUATION
Easy questionnaire management: Questions within Themes

### Questions List for Board Culture

<table>
<thead>
<tr>
<th>Question</th>
<th>Question Type</th>
<th>Required</th>
<th>Order</th>
<th>Actions</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Is there a sufficient level of independent behaviour in the board room?</td>
<td>TrackBar</td>
<td>Yes</td>
<td>0</td>
<td>Manage Question</td>
</tr>
<tr>
<td>2. Are the directors independent, enthusiastic, informed and fully committed to serving on the board?</td>
<td>TrackBar</td>
<td>Yes</td>
<td>2</td>
<td>Manage Question</td>
</tr>
<tr>
<td>3. Have the directors and the CEO created a relationship that promotes open and frank discussion?</td>
<td>TrackBar</td>
<td>No</td>
<td>3</td>
<td>Manage Question</td>
</tr>
<tr>
<td>4. Do all directors freely speak their minds on key points?</td>
<td>TrackBar</td>
<td>Yes</td>
<td>4</td>
<td>Manage Question</td>
</tr>
<tr>
<td>5. Are relationships and communication within the board constructive?</td>
<td>TrackBar</td>
<td>Yes</td>
<td>5</td>
<td>Manage Question</td>
</tr>
<tr>
<td>6. Comment:</td>
<td>TextArea</td>
<td>No</td>
<td>1</td>
<td>Manage Question</td>
</tr>
<tr>
<td>7. Comment:</td>
<td>TextArea</td>
<td>No</td>
<td>2</td>
<td>Manage Question</td>
</tr>
<tr>
<td>8. Comment:</td>
<td>TextArea</td>
<td>No</td>
<td>3</td>
<td>Manage Question</td>
</tr>
<tr>
<td>9. Comment:</td>
<td>TextArea</td>
<td>No</td>
<td>4</td>
<td>Manage Question</td>
</tr>
<tr>
<td>10. Comment:</td>
<td>TextArea</td>
<td>No</td>
<td>5</td>
<td>Manage Question</td>
</tr>
</tbody>
</table>
INCREASED USE OF TECHNOLOGY AS BASIS IN EVALUATION

Easy questionnaire management: Basic Information

Name: The Company Individual Board Member Effectiveness questionnaire
Description: Individual Board Member Effectiveness questionnaire
Purposes: Individual Board Member Effectiveness
Participant Groups: Management Members, Board Members
Company: Company X
Welcome Text:

Welcome to the Board Evaluation questionnaire system. As you are aware, the board requested the assistance of a facilitator to manage an assessment of the performance of the board and board committees. The Board Practice was requested to act as the required facilitator and to conduct the assessment during October and November 2014.

Kindly complete the attached questionnaire.

There is a separate section for each individual Director to be completed. In the section for your individual rating, you can complete the ratings as a self-assessment or you can simply leave the values at zero, indicating that you are not doing a self-assessment.

Please click below to start the questionnaire.

Completed Text:

Thank you for your participation. The results of the evaluation process will be communicated as agreed with the Board.

Template:

Edit Default Email Template

Expiry Date: 2015-12-27
Easy questionnaire management: Email template

Please Note: The text below will be used to email your questionnaire respondents when the questionnaire is made active. Please ensure you include as much detail as possible within the email template.

[Subject]: The Board Practice - Questionnaire

Dear [UserName],

As a follow up on the decision of the board to perform a board effectiveness review, the Board effectiveness surveys are now officially launched.

This survey is divided into sections that address overall individual effectiveness. Survey results will form part of a report and feedback to formulate board development goals that fit current and future needs of the organisation.

We will keep individual responses confidential; all comments will be aggregated so as to maintain anonymity.

Start the survey by clicking the link below (or copy and paste into your browser):

Survey Link: [SurveyLink]

Your login details are:

Username: [Username]
Password: [Password]

The Board effectiveness surveys should take approximately 45 minutes to complete.

We request that your responses should be completed before [ExpireDate], therefore your earliest attention will be appreciated.

Thank you for your participation. If you have any questions, please contact your survey manager [AccountManager] via either of the below methods:

IMPORTANT INFORMATION:
The following look-up fields can be used to automatically pull information from your questionnaire into the email message:

- [Subject]: Replace the text within the [Subject] to customise the Subject for the recipient email.
- [UserName]: Fullname of the recipient of the email. This would be the respondent.
- [Password]: Password of the recipient of the email.
- [CompanyName]: Your company name as defined in the Site Settings area of the system.
- [SiteLink]: A link to the Questionnaire so your respondents can easily navigate to the questionnaire.
- [ExpireDate]: Date when the questionnaire will expire.
- [AccountManager]: Your name (i.e., the name of the questionnaire administrator).
- [AccountManagerEmail]: Your email address (i.e., the email address of the questionnaire administrator).
- [AccountManagerTelephone]: Your telephone number address (i.e., the telephone number of the questionnaire administrator).
- [BestRegards]: Defined by the Mail From 1 to 3 AND Designation From 1 to 3 values.
INCREASED USE OF TECHNOLOGY AS BASIS IN EVALUATION

Automated reporting tool

The Board Performance Diamond

Interaction / Relationship with Management

Role and Accountability of the Board

Board Contribution to Strategy

Executive Succession

Culture of the Board

Operating Processes

Selection, Recruitment & Induction

Development

Performance

Average overall scores per theme and participant group
INCREASED USE OF TECHNOLOGY AS BASIS IN EVALUATION

Automated reporting tool

Board Performance overall

Summary: Highest scores for: Board members

- Mentoring by Board members with respect to Management members are adequate and appropriate
- The Board is attentive to Corporate reputation
- Management is aligned with the Board on company strategy
- The Board dedicates enough time to analysing the strategic environment
- The Board has an inclusive team based culture

Summary: Lowest scores for: Board members

- Committee competencies are adequate
- Board succession is managed effectively
- The Board has sufficient insight and input into the Company's strategy
- The split of accountabilities between the Board and the management team is clear
- There is a healthy chemistry in the boardroom during deliberations

Average Overall highest and lowest scores per participant group:
How the Board scored itself
INCREASED USE OF TECHNOLOGY AS BASIS IN EVALUATION

Automated reporting tool

Board Performance overall

Summary: Highest scores for: Management members

1. The Board challenges the Chairman when necessary
2. Industry best and next practice is regularly discussed against company strategy
3. Board succession is managed effectively
4. The Board dedicates enough time to analysing the strategic environment
5. The Board is attentive to Corporate reputation

Summary: Lowest scores for: Management members

1. Mentoring by Board members with respect to Management members are adequate and appropriate
2. The Board is sufficiently diverse in terms of expertise and insight
3. Directors share a clear view of the Board’s role and value-add
4. There is a healthy chemistry in the boardroom during deliberations
5. There is adequate coaching from Board members with respect to members of Management

Average Overall highest and lowest scores per participant group:
How Management members scored the Board
CARINA WESSELS

Carina holds LLB and LLM degrees, a certificate in advanced labour law, programme for management development and FCIS. She is an admitted advocate of the High Court of South Africa and a fellow of Chartered Secretaries Southern Africa (CSSA).

Her formal employment stretches across a breadth of various disciplines, including human resources, business improvement, corporate secretariat and legal and within large international organisations namely De Beers, Investec and Exxaro (of which she has been the Group Company Secretary and member of the executive committee since June 2011).

She has over many years supplemented her formal work experience with various part-time activities and public service. She is past president of CSSA and also the immediate past president of the Corporate Secretaries International Association: a global federation of trade bodies representing in excess of 100 000 corporate secretaries and governance professionals worldwide. She is co-author of the CSSA board exam level Corporate Administration text book and a contributor to the Corporate Secretaryship textbook. A number of her articles on governance and legal matters have been published and she is a regular speaker at Corporate Governance and Company Secretariat seminars both locally and internationally.

She has over 37 years of accumulated non-executive director and audit committee experience in a variety of different types of organisations.