

BOARD EVALUATION: MORE CAN BE DONE

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In the corporate world, it has long been the norm to have procedures for regular appraisal or evaluation of both staff and departments at various levels throughout the organisation.

It is only logical that the board of directors – being the highest governing body of a company which controls major resources, both financial and human – should also be subjected to a regular evaluation process.

The Singapore Code of Corporate Governance states that: “There should be a formal annual assessment of the effectiveness of the board as a whole and its board committees and the contribution by each director to the effectiveness of the board.”

It is also recommended that a write-up of the board evaluation process be included in the company's annual report.

THE BOARD EVALUATION PROCESS

Board evaluations are typically based around directors rating themselves, the other directors and the collective board, as well as the three principal committees (Audit, Nomination and Remuneration). This rating is done on a series of questions related to their responsibilities and functions as a board.

The results of this rating are then compiled and analysed and a report delivered to the Nominating Committee or the board.

There are two basic areas to look at in board evaluation: people factors and process factors. People factors tend to be by far the more important of the two in achieving an effective board.

On the people front, questions that should be asked include: How do the directors work as a team? What are their interpersonal skills? And is there a dominant chairman or CEO?

Process factors deal with things such as whether appropriate, timely and unbiased information, of the right length and quality, is provided to the board; whether there are sufficient board and committee meetings; and if they are conducted in a manner that ensures open communication, meaningful participation and timely resolution of issues.

Over-arching the people and process questions are those which are broader and more strategic. Questions such as:

- Has the board set itself clear performance objectives and how well has it performed against them?
- What has been the whole board's contribution to the testing and development of strategy?

- What has been the board's contribution to ensuring robust and effective risk management?
- Is the composition of the board and its committees appropriate with the right mix of knowledge and skills sufficient to maximise performance in the light of future strategy?

ENSURING EFFECTIVENESS

For the exercise to be of value, there should be a firm commitment and belief that formal annual evaluations and follow through of findings would go a long way to helping the board improve its own performance.

Therefore, serious thought and adequate time should be put into answering the questionnaires. Honesty is also important. To that end, directors are encouraged to articulate their views to support or justify the ratings they provide.

Well-conducted evaluations have the potential to achieve various benefits, among other things, helping the board to:

- Confirm that it has a suitable balance of skills and other attributes and focusing attention on the attributes required in any new director;
- Focus on any inadequacies;
- Identify strategic priorities;
- Develop skills, knowledge and understanding in the individual directors;
- Review its practices and procedures to become more efficient and effective.

Based on the results of the evaluation, a work programme incorporating recommendations that are to be undertaken, specifying who are

responsible for which recommendations and the deadline for the recommendations to be implemented should be developed.

This provides a formal accountability and project plan for the board, which is more likely to result in the recommendations being put into action.

IN PRACTICE

In Singapore, board evaluation is typically done on the board as a whole. Self and peer evaluations are avoided, probably because of our Asian culture which treasures politeness, humility and avoidance of conflict.

What is also not usually done is an evaluation of each director by the board chairman and of the board chairman by the directors. This, in my view, should be undertaken as boards mature.

The engagement of external facilitators and professional consultants to gather and analyse the findings can help to instill greater discipline and improve objectivity in the process. However, this is not normally done due primarily to cost considerations.

The most recent *SID-SGX Board of Directors Survey 2013*, which polled listed companies in Singapore, showed that there has been a shift from results-oriented emphasis of performance criteria towards more process-oriented factors when appraising boards.

The main challenge faced by boards in executing board assessment is the perceived challenge of having a rigorous process to pursue substance over form.

To further raise the level of corporate governance, transparency and accountability in Singapore, it is time to enhance the rigours of board evaluation by introducing some of these steps. ■