

A Guide to Board Evaluation

The Companies Act, 2013 Series



**THE INSTITUTE OF
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PREFACE

*“Everything that can be counted does not necessarily count;
everything that counts cannot necessarily be counted”*

Albert Einstein

The duties of the Board defined under the Companies Act, 2013 clearly codifies that the director of a company shall act in good faith in order to promote the objects of the company for the benefit of its members as a whole, and in the best interests of the company, its employees, the shareholders, the community and for the protection of environment. This enhanced role of directors requires Boards to be more engaged, more knowledgeable and more effective.

Board Evaluation is the most effective way to ensure Board members understand their duties and to adopt effective good governance practices. To be effective, boardroom appraisals need to have specific, clearly defined steps and practices, and a special commitment from the Board.

Board Evaluation as a good governance practice has found its place in the Companies Act, 2013. This Handbook comprehensively captures all the provisions relating to Board Evaluation in the Companies Act, 2013, Steps involved in Board Evaluation, Parameters and Sample models for evaluation of Chairperson, Managing Director, Executive Director, Non- executive director, Independent Director, Board as whole and the Committees and also provides guidance on how to conduct evaluation of Board.

I am confident that the publication will prove to be of immense benefit to companies and professionals.

I place on record my sincere thanks to CS S. K Agrawala, Central Council member, CS Ahalada Rao, Central Council member, Mr. N Hariharan Vice President (Secretarial) & Company Secretary, Larsen & Toubro Ltd for their valuable inputs in finalizing the hand book.

I commend the dedicated efforts put in by team ICSI led by CS Alka Kapoor, Joint Secretary and comprising CS Banu Dandona, Deputy Director, Mr. Chittaranjan Pal, CS Disha Kant, Assistant Education

Officers under the overall guidance of CS Sutanu Sinha, Chief Executive & Officiating Secretary and leadership of CS Mamta Binani, Vice President and CS Vineet Chaudhary, Central Council Member and Chairman, Corporate Laws and Governance Committee.

In any publication, there is always scope for further improvement. I would personally be grateful to users and readers for offering their suggestions/comments for further refinement.

(CS Atul H Mehta)

President

Place: New Delhi

Date: 15-04-15

Institute of Company Secretaries of India

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Introduction

*“Why should boards exhibit less responsibility than they require of the people who work for them? Why should the parts of an organisation make more sense than the whole? Why must the most powerful organizational unit be less studied, least developed, and least rational? Why should board be excused from taking responsibility for their own jobs?..... given the massive accountabilities and powers of boards, why should we not expect heroic performance? Do we have any right to accept less?”
“virtually without question we countenance far less competence in boards than we demand in pilots, surgeons, cosmetologists”.*

Dr. John Carver – Creator of Model Policy Governance

At the core of the corporate governance practices is the Board of Directors which oversees how the management serves and protects the long term interests of all the stakeholders of the company. The institution of Board or directors was based on the premise that a group of trustworthy and respectable people should look after the interests of the large number of shareholders who are not directly involved in the management of the company. The position of Board of Directors is that of trust as the Board is entrusted with the responsibility to act in the best interests of the company. It is accountable to the shareholders for creating, protecting and enhancing wealth, ensuring optimum utilisation of resources of the company, and reporting to them on the performance in a timely and transparent manner. The Board is ultimately responsible for ensuring compliance of various applicable laws in the best interests of stakeholders.

The shareholders and investors repose confidence on the Board of Directors as their representatives for conducting and monitoring the affairs of the company. Board behavior and effectiveness are becoming increasingly visible to investors and other stakeholders.

Corporate boards are expected to be more engaged, more knowledgeable and more effective than in the past. One tool that a growing number of boards are using to examine and improve their effectiveness is the Board evaluation.

According to Heidrick & Struggles Asia Pacific Corporate Governance Report 2014 “Foundations and Building Blocks for High-performing Boards”, regular Board evaluations is the core driver necessary to promote change and deliver best practice. The four capabilities of high-performing boards include as “top talent performance and succession planning” (people), “clarity of vision/strategy that is both shared and understood” (vision), “leadership on the Board that promotes team dynamics” (leadership) and “capacity to adapt to risk and innovation” (innovation).

The Companies Act 2013 for the first time codifies the duties of directors, and specifies that the director of a company shall act in accordance with the articles of the company. It is further provided:

- A director of a company shall act in good faith in order to promote the objects of the company for the benefit of its members as a whole, and in the best interests of the company, its employees, the shareholders, the community and for the protection of environment.
- A director of a company shall exercise his duties with due and reasonable care, skill and diligence and shall exercise independent judgment.
- A director of a company shall not involve in a situation in which he may have a direct or indirect interest that conflicts, or possibly may conflict, with the interest of the company.
- A director of a company shall not achieve or attempt to achieve any undue gain or advantage either to himself or to his relatives, partners, or associates and if such director is found guilty of making any undue gain, he shall be liable to pay an amount equal to that gain to the company.
- A director of a company shall not assign his office and any assignment so made shall be void.

The stakeholders and investors are interested to know whether the members of Board are effectively functioning individually and

collectively. The Board at many times requires new skills for promptly responding to the dynamic changing business environment. Performance measurement, against the set benchmarks, in the form of Board evaluation (also called “Board assessment”, “Board review”) has the potential to significantly enhance Board effectiveness, maximize strengths, tackle weaknesses and improve corporate relationships. Annual assessment is a powerful tool to convert good boards into great boards.

NEED FOR BOARD EVALUATION

The purposes of the Board evaluation can be enumerated as under:

- Improving the performance of Board towards corporate goals and objectives.
- Assessing the balance of skills, knowledge and experience on the Board.
- Identifying the areas of concern and areas to be focussed for improvement.
- Identifying and creating awareness about the role of Directors individually and collectively as Board.
- Building Team work among Board members.
- Effective Coordination between Board and Management.
- Overall growth of the organisation.

Appraisal of Board’s performance includes fixing up of individual and collective roles and responsibilities of its directors, creating awareness among Directors about their expected level of performance and thereby improving the effectiveness of the Board. Board evaluation contributes significantly to improved performance at three levels - organizational, Board and individual Board member level. It also improves the leadership, teamwork, accountability, decision-making, communication and efficiency of the board. A commitment to annual evaluation is powerful change agent.

The Board evaluation sets the standards of performance and improves the culture of collective action by Board.

Evaluation also improves teamwork by creating better

understating of Board dynamics, board-management relations and thinking as a group within the board. It helps to maximize board/director contribution by encouraging participation in meetings and highlighting the skill gaps on the Board and those of individual members. Directors demonstrate commitment to improvement, based on the feedback provided on individual and collective skill gaps.

Even beyond the legal mandate many good governed companies have been undertaking evaluation of its Board.

The “Review of the Role and Effective Functioning of Non-Executive Directors” carried out under the chairmanship of **Sir Derek Higgs in 2003 (the Higgs Review) in U.K.** for the first time noted the importance of Board performance evaluation. It stated that it is ‘best practice that the performance of the Board as a whole, of its committees and of its members, is evaluated at least once a year’ and that ‘Companies should disclose in their annual report whether such performance evaluation is taking place.’

LEGAL FRAMEWORK IN INDIA

Board evaluation, until recently, was recognised as a good corporate governance practice and largely undertaken voluntarily. The erstwhile Clause 49 of the Listing Agreement as a non-mandatory requirement, provided for performance evaluation of non-executive directors by a peer group. Further, the Corporate Governance Voluntary Guidelines 2009 recommended that the Board should undertake a formal and rigorous evaluation of its own performance and that of its committee and individual directors.

The Companies Act, 2013 (the Act) now mandates formal annual evaluation of the Board, its committees and individual directors.

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 of Directors, 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.

'Listed company' as per section 2(52) of the Act means a company which has any of its *securities* listed on any recognised stock exchange.

"Securities" under section 2(81) of the Act securities means "the securities as defined in clause (h) of section 2 of the Securities Contracts (Regulation) Act, 1956". The relevant section states that securities include:-

- (i) shares, scrips, stocks, bonds, debentures, debenture stock or other marketable securities of a like nature in or of any incorporated company or other body corporate;
- (ia) derivative;
- (ib) units or any other instrument issued by any collective investment scheme to the investors in such schemes;
- (ic) security receipt as defined in clause (zg) of section 2 of the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002;
- (id) units or any other such instrument issued to the investors under any mutual fund scheme;
- (ie) any certificate or instrument (by whatever name called), issued to an investor by any issuer being a special purpose distinct entity which possesses any debt or receivable, including mortgage debt, assigned to such entity, and acknowledging beneficial interest of such investor in such debt or receivable, including mortgage debt, as the case may be;
- (ii) Government securities;
- (ia) such other instruments as may be declared by the Central Government to be securities; and
- (iii) Rights or interest in securities;

Requirements under schedule IV

The Schedule IV i.e. "Code for Independent Directors" provides that independent directors shall bring an objective view in the evaluation of the performance of Board and management.

The independent directors of the company shall hold at least one meeting in a year, without the attendance of non-independent directors and members of management. All the independent directors of the company shall strive to be present at such meeting. The meeting shall:

- (a) review the performance of non-independent directors and the Board as a whole;
- (b) review the performance of the Chairperson of the company, taking into account the views of executive directors and non-executive directors;
- (c) assess the quality, quantity and timeliness of flow of information between the company management and the Board that is necessary for the Board to effectively and reasonably perform their duties.

Role of Nomination & Remuneration Committee in Board Evaluation

Nomination & Remuneration committee constituted under section 178 of the Act has been made responsible for carrying out evaluation of every director's performance.

Section 178(2) states that 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.

It is pertinent to note that for the smooth and timely evaluation, the Nomination and Remuneration Committee plays a crucial role starting from developing the questionnaire to overseeing the evaluation and finally analyzing the feedback.

Listing Agreement

SEBI has revised the listing agreement, effective October 01, 2014 whereby the Board of Directors have to fulfil certain key functions, including monitoring and reviewing the Board evaluation framework.

The revised Listing Agreement mandates evaluation with respect to performance evaluation of Independent Directors.

Additionally, for listed companies, as mentioned above, Nomination & Remuneration Committee shall lay down the evaluation criteria for performance evaluation of Independent Directors.

The Listing Agreement further provides that the company shall familiarise the independent directors with the company, their roles, rights, responsibilities in the company, nature of the industry in which the company operates, business model of the company, etc., through various programmes. The details of such familiarisation programmes shall also be disclosed on the company's website and a web link thereto shall also be given in the Annual Report.

Attention is drawn to the different words used in different places, like "review", "assess", "evaluate". Each of these words carries specific meanings, according to which the scope may also vary.

BROAD EVALUATION METHODOLOGIES

The Act is silent on how the Board evaluation is to be undertaken. It only provides that the Nomination & Remuneration Committee shall carry out Board evaluation. Further Schedule IV of the Act provides that the independent directors shall bring an objective view in the evaluation of the performance of Board and management.

Listing Agreement is also silent on what process needs to be adopted for the purpose of evaluation.

Companies should ensure that the process for evaluation of the board, committees and directors should be developmental rather than just a compliance exercise. Doing just bare minimum of compliance would mean squandering the opportunity of genuinely improving the work of the Board.

Typically, the Board evaluation process should comprise of both assessment and review. This would include analysis of how the Board and its committees are functioning, the time spent by the Board considering matters and whether the terms of reference of the Board committees have been met, besides compliance of the provisions of the Act.

Generally Board appraisals include following components:

1. Evaluation of the Board as a whole
 - a. Internally
 - b. Externally
2. Evaluation of Individual Directors (Independent, Executive, Non- executive, Whole Time Director)
 - a. Self evaluation
 - b. Peer to Peer evaluation
 - c. External
3. Evaluation of the Committees
 - a. Internal (by the Board)
 - b. External
4. Evaluation of the Chairperson
 - a. All Directors
 - b. External

These are elaborated below :

(a) *Internal Evaluation* : In case of internal evaluation, the Board is responsible for managing both the process as well as the content. Evaluation methodology may be set by the Nomination and Remuneration Committee. The Boards' performance may generally be evaluated by a standard questionnaire and/or through one-on-one interviews.

This approach has certain drawbacks, which includes:

- Reluctance of directors to share issues within the company.
- The approach may not be entirely acceptable to stakeholders, as they may question the rigour of the process.

(b) *External evaluation* : External evaluation may be externally facilitated. Externally facilitated evaluations are undertaken with the assistance of a external expert, this adds to the level of independence of the evaluation. This approach is also recommended by the UK Code for Corporate Governance for FTSE 350 companies and also in the revised ASX Corporate

Governance Council Principles & Recommendations. The Higgs Review states: “The conduct of the evaluation by an external third party can bring objectivity to the process”.

These evaluations may be made by using a questionnaire and/or one-on-one interviews. External evaluators are expected to bring their own judgment on the quality of the Board’s performance during the evaluation.

(c) *Peer Review* : In this case the evaluation of each Director is done by the Directors other than the one being evaluated.

It is of great importance that trust is established in the credibility and confidentiality of the process of Board evaluations, regardless of whether it is managed by the Board itself or by a third party.

1. EVALUATION OF THE BOARD

The performance of the Board as a whole may be evaluated either from the reviews/ feedback of the directors themselves or by some external source. The broad parameters for reviewing the performance of the Board, inter alia, shall contain the following:

- Development of suitable strategies and business plans at appropriate time and its effectiveness;
- Implementation of robust policies and procedures;
- Size, structure and expertise of the Board;
- Oversight of the Financial Reporting Process, including Internal Controls;
- Willingness to spend time and effort to learn about the Company and its business; and
- Awareness about the latest developments in the areas such as corporate governance framework, financial reporting, industry and market conditions.

The Independent Directors at their separate meeting shall also assess the quality, quantity and timeliness of flow of information between the company management and the Board that is necessary for the Board to effectively and reasonably perform their duties.

Quality of information includes its relevance, completeness, authenticity, how comprehensive and concise and clear such information is. As regards quantity, the independent director need to assess that the information is neither too less nor too much resulting in an information overload. Typically the information to the board members should carry an executive summary which is supplemented by detailed notes and where necessary back-up papers as annexures. Timeliness of information flow can be gauged from facts such as how soon are important events communicated between board meetings, timeliness of the agenda papers, etc.

The evaluation form placed later as Part I in Sample Evaluation Tools may be referred.

2. EVALUATION OF INDIVIDUAL DIRECTOR(S)

i. Evaluation of Managing Director / Whole time Director / Executive Director

The performance evaluation of Managing Director, Executive Director of the Company may be done by all the directors. The external facilitation may also serve as the efficient tool for evaluation. The Code for Independent Directors also provides that Independent Directors shall review the performance of non-independent Directors, which include Managing Director / Whole time Director/ Executive Director.

The broad parameters for reviewing the performance of Managing Director/Executive Director are:

- Achievement of financial/business targets prescribed by the Board;
- Developing and managing / executing business plans, operational plans, risk management, and financial affairs of the organization;
- Display of leadership qualities i.e. correctly anticipating business trends, opportunities, and priorities affecting the Company's prosperity and operations;
- Development of policies, and strategic plans aligned

with the vision and mission of Company and which harmoniously balance the needs of shareholders, clients, employees, and other stakeholders;

- Establishment of an effective organization structure to ensure that there is management focus on key functions necessary for the organization to align with its mission; and
- Managing relationships with the Board, management team, regulators, bankers, industry representatives and other stakeholders.

The evaluation form placed later as Part II Sample Evaluation Tools may be referred.

(ii) *Evaluation of Non-Executive Directors*

In terms of the Code for Independent Directors, the Independent director(s) on the Board of the Company can evaluate the performance of Non-independent director(s) which include non-executive director(s). Peer Review method or external evaluation may also facilitate the purpose of evaluating Non-executive directors.

The broad parameters for reviewing the performance of Non-executive Directors are:

- Participation at the Board / Committee meetings;
- Commitment (including guidance provided to senior management outside of Board/ Committee meetings);
- Effective deployment of knowledge and expertise;
- Effective management of relationship with stakeholders;
- Integrity and maintaining of confidentiality;
- Independence of behaviour and judgment; and
- Impact and influence.

The evaluation form placed later as Part III of Sample Evaluation Tools may be referred for self assessment.

The evaluation form placed later as Part IV of Sample Evaluation Tools may be referred for Peer review.

(iii) *Evaluation of Independent Directors*

The Schedule IV of the Act i.e. “Code for Independent Directors” also provides for the evaluation of Independent Directors. It requires that the performance evaluation of independent directors shall be done by the entire Board of Directors, excluding the director being evaluated. 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. This also means that Independent Directors (other than the Independent Director being evaluated) also become a part to assess the Independent Director being evaluated.

The revised Listing Agreement provides that the Nomination Committee shall lay down the evaluation criteria for performance evaluation of independent directors. The company shall disclose the criteria for performance evaluation, as laid down by the Nomination Committee, in its Annual Report. The performance evaluation of independent directors shall be done by the entire Board of Directors (excluding the director being evaluated).

In addition to the parameters laid down for Directors, which shall be common for evaluation to both Independent and Non- executive directors, an Independent director shall also be evaluated on the following parameters:

- Exercise of objective independent judgment in the best interest of Company;
- Ability to contribute to and monitor corporate governance practice; and
- Adherence to the code of conduct for independent directors.

The evaluation form placed later as Part IV of Sample Evaluation Tools may be referred.

3. EVALUATION OF THE COMMITTEES

The performance of the committees may be evaluated by

the Directors, on the basis of the terms of reference of the committee being evaluated. The evaluation may be externally facilitated.

The broad parameters of reviewing the performance of the Committees, *inter alia*, are :

- Discharge of its functions and duties as per its terms of reference;
- Process and procedures followed for discharging its functions;
- Effectiveness of suggestions and recommendations received;
- Size, structure and expertise of the Committee; and
- Conduct of its meetings and procedures followed in this regard.

The evaluation form placed later as Part V of Sample Evaluation Tools may be referred.

4. EVALUATION OF CHAIRPERSON OF THE BOARD

The performance of the Chairperson is linked to both the functioning of the Board as a whole as well as the performance of each director.

In terms of Code for Independent Directors, the Independent Director shall review the performance of the Chairperson of the company taking into account the views of the executive directors and non-executive directors.

All the directors of the Board of the company thereof contribute in evaluating the performance of the Chairperson of the Board. External agencies may also be involved in evaluating the Chairperson.

The broad parameters for reviewing the performance of Chairperson of the Board are:

- Managing relationship with the members of the Board and management;
- Demonstration of leadership qualities;

- Relationship and communication within the Board;
- Providing ease of raising of issues and concerns by the Board members; and
- Promoting constructive debate and effective decision making at the board;
- Relationship and effectiveness of communication with the shareholders and other stakeholders;
- Promoting shareholder confidence in the Board and
- Personal attributes i.e. Integrity, Honesty, Knowledge etc.

The evaluation form placed later as Part VI of Sample Evaluation Tools may be referred.

FREQUENCY OF BOARD EVALUATION

Reading section 134(3)(p) it can be inferred that there has to be a formal **annual evaluation** of Board of its own performance and that of its committees and individual directors.

The Company may undertake annual evaluation either in accordance with calendar year or financial year, as there is no clarity on this. Ideally, the same should be as per financial year.

DISCLOSURE

The Companies Act, 2013 requires the Board's report to include a statement indicating the manner in which formal annual evaluation by the Board of its own performance and that of its committees and individual directors. (Section 134(3)(p))

Additionally, the Listing Agreement provides that the company shall disclose the evaluation criteria as laid down by the Nomination committee, in its Annual Report. (Clause 49(II)(B)(5)(b))

Therefore all the listed companies and public companies with paid-up share capital of Rs. 25 crore or more shall have to include such a statement in Board's Report indicating the manner and criteria of formal Board evaluation. (Section 134 sub-section 3(p) read with Sub-rule (4) of Rule 8 of the Companies (Accounts) Rules, 2014)

This type of disclosure does not however, discuss the findings of specific evaluation. Instead, it details the criteria of the assessment process to show how the Board identifies gaps in the skills generally.

STEPS FOR BOARD EVALUATION

Identification of objectives

The first step for Board evaluation is to identify the objective of evaluation. It is important to determine what to assess, since it is critical in designing an appropriate evaluation framework. The Board has to undertake various important responsibilities including strategic development, risk management, etc. Before the evaluation even begins it is important that the directors set the targets of the company against which the performances can be measured, after thorough Board discussion.

What is to be evaluated?

The evaluation process should be used constructively as a mechanism to improve Board effectiveness, maximise strengths and tackle weaknesses.

Board evaluation can be divided into two main factors; people factors (knowledge, personal characteristics, Board size, structure, directors contribution, interpersonal skills, level of commitment, Board room behaviour, etc); and process factors (planning and managing Board meetings, information flow, oversight management, risk management, coordination, succession planning, etc.)

The **Higgs Review** suggests the following as some of the areas that should be considered in a performance evaluation:

- How well has the Board performed against any performance objectives that have been set?
- What has been the 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 to maximise performance in the light of future strategy? Are

inside and outside the Board relationships working effectively?

- How has the Board responded to any problems or crises that have emerged and could or should these have been foreseen?
- Are the matters specifically reserved for the Board the right ones?
- How well does the Board communicate with the management team, company employees and others? How effectively does it use mechanisms such as the AGM and the annual report?
- Is the Board as a whole up to date with latest developments in the regulatory environment and the market?
- How effective are the board's committees? (Specific questions on the performance of each committee should be included such as, for example, their role, their composition and their interaction with the board.)

The processes that help underpin the board's effectiveness should also be evaluated e.g.:

- Is appropriate, timely information of the right length and quality provided to the Board and is management responsive to requests for clarification or amplification? Does the Board provide helpful feedback to management on its requirements?
- Are sufficient Board and committee meetings of appropriate length held to enable proper consideration of issues? Do all the Board members attend and actively contribute at meetings? Is time used effectively?
- Are Board procedures conducive to effective performance and flexible enough to deal with all eventualities?

The leadership skills of the Chairperson are central to an effective Board process.

In addition, according to Higgs Review some specific issues relating to the Chairperson should be included as part of an evaluation of the board's performance e.g.:

- Is the Chairperson demonstrating effective leadership of the board?

- Does his leadership style promote effective decision making and constructive feedback?
- Are relationships and communications with shareholders well managed?
- Are relationships and communications within the Board constructive?
- Do the Chairperson and CEO work well together to complement their skills and experience?
- Are the processes for setting the agenda working? Do they enable Board members to raise issues and concerns?

Important Steps for Evaluation Process

- To develop a methodology for evaluation. It may be different for different Companies.
- As a good practice, the Company may also develop a Policy on Board Evaluation.
- Ideally, evaluation process could commence each year (during last quarter) to evaluate the performance of concerned body or individual in the succeeding year.
- It is a good practice that each director is given a copy of the form for assessing the overall performance of Board/ Committees/Directors/ Chairperson/ Managing Director/ wholetime director / Executive Director, as the case may be, sufficiently in advance.
- The forms which include a set of questions, should have a rating mechanism or subjective questions, which may be analysed by the Nomination & Remuneration Committee.
- Ideally, the Nomination & Remuneration Committee should compile the feedback and comments in the evaluation forms and appropriately review the same.
- Thereafter the consolidated feedback and comments along with its recommendation be placed before the Board.

REVIEW

This evaluation methodology may be reviewed once in a year by the Nomination and Remuneration Committee based on the recommendation of the Board and/ or to ensure compliance with regulatory requirements.

POST DISCLOSURE

Apart from disclosures in the Boards' Report, follow-up is critical for having the maximum impact. Once the evaluation is complete, directors should be encouraged to formally recognize the results and enable follow-up activities. Follow up should include developing a plan of action for addressing points that arise from the discussion and assigning follow-up responsibilities to the governance committee, if any or the Board Chair. This may include :

- Communication to individual director - the feedback or concerns may be shared with directors preferably by the Chairperson in a delicate and subtle manner in one to one meeting. Such meetings should be interactive so that cordial future action can be derived.
- Systemic changes can be introduced which shall include director development programmes, director dashboard, better information flow to directors, committees etc.

For the sake of convenience of the readers, the Snap Shot of Indian Legislative Framework is given in tabular form here:

Snap Shot of Indian Legislative Framework

Board of Directors and Evaluation

<i>Source</i>	<i>Particulars</i>	<i>Board's Role in evaluation</i>	<i>Remarks</i>
Companies Act-Section 134(3)(p)	Evaluation to be done by the entire Board	<p>Has to do formal annual evaluation of its own performance</p> <p>Has to do formal annual evaluation of its Committees</p> <p>Has to do formal annual evaluation of all the individual directors</p> <p>Has to do performance evaluation of Independent Director's (excluding the director being evaluated)</p>	<p>Board overall evaluation</p> <p>Evaluation of Committees</p> <p>Evaluation of individual directors</p> <p>The said evaluation will be the basis for continuation of the extension/ the term of the Independent Director.</p>
Companies Act- Section 134(3)(p) read with Rule 8 of companies (Accounts) Rules 2014	Disclosure	Board's Report	All the listed companies and public companies with paid-up share capital of Rs. Twenty Five crore or more shall have to include such a statement in Board Report indicating the manner & criteria of formal Board evaluation.

Role and functions of Independent Directors in relation to evaluation

<i>Source</i>	<i>Particulars</i>	<i>Independent Directors' Role in evaluation</i>	<i>Remarks</i>
Companies Act - Schedule IV- Code for ID (Part VII)	In the separate meeting of Independent Directors	<p>Review the performance of Non-Independent Directors</p> <p>Review the performance of the Board as a whole</p> <p>Review the performance of the Chairperson of the Company, taking into account the views of Executive Director's and Non executive director's</p> <p>Assess the:</p> <ul style="list-style-type: none"> a. quality b. quantity and c. timeliness <p>of flow of information between the Company management and</p>	<p>Review of:</p> <ul style="list-style-type: none"> a. Non executive directors b. Managing Director, whole time directors and Executive directors <p>Review the performance of the Board as a whole.</p> <p>Review the performance of the Chairperson.</p> <p>Quality of information includes its relevance, completeness,</p>

		<p>the Board, that is necessary for the Board to effectively and reasonably perform their duties.</p>	<p>authenticity, how comprehensive, concise and clear such information is. As regards quantity, the independent director need to assess that the information is neither too less nor too much resulting in an information overload. Typically the information to the board members should carry an executive summary which is supplemented by detailed notes and where necessary back-up papers as annexure. Timeliness of information flow can be gauged from facts such as how soon are important events communicated between board meetings, timeliness of the agenda papers, etc.</p>
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International Perspective

UK CORPORATE GOVERNANCE CODE 2014

For board effectiveness it is required that the board should undertake a formal and rigorous annual evaluation of its own performance and that of its committees and individual directors.

The board should undertake a formal and rigorous annual evaluation of its own performance and that of its committees and individual directors.

Supporting Principles

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.

The chairman should act on the results of the performance evaluation by recognising the strengths and addressing the weaknesses of the board and, where appropriate, proposing new members be appointed to the board or seeking the resignation of directors.

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).

Code Provisions B.6.1.

The board should state in the annual report how performance evaluation of the board, its committees and its individual directors has been conducted.

B.6.2. Evaluation of the board of FTSE 350 companies should be externally facilitated at least 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.

B.6.3. The non-executive directors, led by the senior independent director, should be responsible for performance evaluation of the chairman, taking into account the views of executive directors.

Australia

The ASX Corporate Governance Council Principles and Recommendations 3rd Edition (2014)

Recommendation 1.6:

A listed entity should:

- (a) have and disclose a process for periodically evaluating the performance of the board, its committees and individual directors; and**
- (b) disclose, in relation to each reporting period, whether a performance evaluation was undertaken in the reporting period in accordance with that process.**

Commentary

The board performs a pivotal role in the governance framework of a listed entity. It is essential that the board has in place a formal and rigorous process for regularly reviewing the performance of the board, its committees and individual directors and addressing any issues that may emerge from that review. The board should consider periodically using external facilitators to conduct its performance reviews.

A suitable non-executive director (such as the deputy chair or the senior independent director, if the entity has one), should be responsible for the performance evaluation of the chair, after having canvassed the views of the other directors.

When disclosing whether a performance evaluation has been undertaken the entity should, where appropriate, also disclose any insights it has gained from the evaluation and any governance changes it has made as a result.

Singapore

Code of Corporate Governance 2012

The Nomination Committee should make recommendations to the Board on relevant matters relating to the development of a process for evaluation of the performance of the Board, its board committees and directors.

Individual evaluation should aim to assess whether each director continues to contribute effectively and demonstrate commitment to the role (including commitment of time for meetings of the Board and board committees, and any other duties). The Chairman should act on the results of the performance evaluation, and, in consultation with the Nomination Committee, propose, where appropriate, new members to be appointed to the Board or seek the resignation of directors.

South Africa

King III Report 2009

On Performance assessment it has been provided that the evaluation of the board, its committees and the individual directors should be performed every year.

Yearly evaluations should be performed by the chairman or an independent provider.

The results of performance evaluations should identify training needs for directors.

An overview of the appraisal process, results and action plans should be disclosed in the integrated report.

The nomination for the re-appointment of a director should only occur after the evaluation of the performance and attendance of the director.

It is provided that the chairman's ability to add value, and his performance against what is expected of his role and function, should be assessed every year.

NYSE LISTING RULES

The NYSE mandates that the boards of listed companies undertake

an annual self-evaluation to determine whether they and each of their committees are functioning effectively.

303A.04 Nominating/Corporate Governance Committee

The nominating/corporate governance committee must have a written charter that includes that the committee's purpose and responsibilities – which, at minimum, must be to: identify individuals qualified to become board members, consistent with criteria approved by the board, and to select, or to recommend that the board select, the director nominees for the next annual meeting of shareholders; develop and recommend to the board a set of corporate governance guidelines applicable to the corporation; and oversee the evaluation of the board and management.

303A.09 Corporate Governance Guidelines further provide for Annual performance evaluation of the board. The board should conduct a self-evaluation at least annually to determine whether it and its committees are functioning effectively.

CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM

CALPERS administer health and retirement benefits on behalf of more than 3,000 public school, local agency and State employers. They ensure that the boards adopted the best governance practices, accordingly board evaluation.

Global Principles of Accountable Corporate Governance, 2014 recommend the following on Board, Director, and CEO Evaluation.

No board can truly perform its function of overseeing a company's strategic direction and monitoring management's success without a system of evaluating itself. Each director should fit within the skill sets identified by the board as necessary to focus board attention on optimizing company operating performance and returns to shareowners. No director can fulfil his or her potential as an effective board member without a personal dedication of time and energy. Corporate boards should therefore have an effective means of evaluating itself and individual director performance.

With this in mind, it has been recommended that:

- 2.1 *Corporate Governance Principles* : The board adopts and discloses a written statement of its own governance

principles, and re-evaluates them on at least an annual basis.

2.2 *Board Talent Assessment and Diversity* : The board should facilitate a process that ensures a thorough understanding of the diverse characteristics necessary to effectively oversee management’s execution of a long-term business strategy. Board diversity should be thought of in terms of skill sets, gender, age, nationality, race, and historically under-represented groups. Consideration should go beyond the traditional notion of diversity to include a more broad range of experience, thoughts, perspectives, and competencies to help enable effective board leadership. A robust process for how diversity is considered when assessing board talent and diversity should be adequately disclosed, and entail:

- a. *Director Talent Evaluation* : To focus on the evolving global capital markets, a board should disclose its process for evaluating the diverse talent and skills needed on the board and its key committees.
- b. *Director Attributes* : Board attributes should include a range of skills and experience which provide a diverse and dynamic team to oversee business strategy, risk mitigation and senior management performance. The board should establish and disclose a diverse mix of director attributes, experiences, perspectives and skill sets that are most appropriate for the company. At a minimum, director attributes should include expertise in accounting or finance, international markets, business or management, industry knowledge, governance, customer-base experience or perspective, crisis response, risk assessment, leadership and strategic planning. Additionally, existing directors should receive continuing education surrounding a company’s activities and operations to ensure they maintain the necessary skill sets and knowledge to meet their fiduciary responsibilities.
- c. *Director Nominations* : With each director nomination

recommendation, the board should consider the issue of continuing director tenure, as well as board diversity, and take steps as necessary to ensure that the board maintains openness to new ideas and a willingness to re-examine the status quo.

- 2.3 *Board, Committee, and Director Expectations* : The board establishes preparation, participation and performance expectations for itself (acting as a collective body), for the key committees and each of the individual directors. A process by which these established board, key committee and individual director expectations are evaluated on an annual basis should be disclosed to shareowners. Directors must satisfactorily perform based on the established expectations with re-nomination based on any other basis being neither expected nor guaranteed.
- 2.4 *Director Time Commitment* : The board adopts and discloses guidelines in the company's proxy statement to address competing time commitments that are faced when directors, especially acting CEOs, serve on multiple boards.
- 2.5 *Director Attendance* : Directors should be expected to attend at least 75% of the board and key committee meetings on which they sit.
- 2.6 *Board Size* : The board periodically reviews its own size, and determines the size that is most effective toward future operations.
- 2.7 *CEO Performance* : Independent directors establish CEO performance criteria focused on optimizing operating performance, profitability and shareowner value creation; and regularly review the CEO's performance against those criteria.
- 2.8 *CEO Succession Plan* : The board should proactively lead and be accountable for the development, implementation, and continual review of a CEO succession plan. Board members should be required to have a thorough understanding of the characteristics necessary for a CEO

to execute on a long-term strategy that optimizes operating performance, profitability and shareowner value creation. At a minimum, the CEO succession planning process should:

- (a) Become a routine topic of discussion by the board.
- (b) Extend down throughout the company emphasizing the development of internal CEO candidates and senior managers while remaining open to external recruitment.
- (c) Require all board members be given exposure to internal candidates.
- (d) Encompass both a long-term perspective to address expected CEO transition periods and a short-term perspective to address crisis management in the event of death, disability or untimely departure of the CEO.
- (e) Provide for open and ongoing dialogue between the CEO and board while incorporating an opportunity for the board to discuss CEO succession planning without the CEO present.
- (f) Be disclosed to shareowners on an annual basis and in a manner that would not jeopardize the implementation of an effective and timely CEO succession plan.

2.9 *Director Succession Plan* : The board should proactively lead and be accountable for the development, implementation, and continual review of a director succession plan. Board members should be required to have a thorough understanding of the characteristics necessary to effectively oversee management's execution of a long-term strategy that optimizes operating performance, profitability, and shareowner value creation. At a minimum, the director succession planning process should:

- (a) Become a routine topic of discussion by the board.
- (b) Encompass how expected future board retirements

or the occurrence of unexpected director turnover as a result of death, disability or untimely departure is addressed in a timely manner.

- (c) Encompass how director turnover either through transitioning off the board or as a result of rotating committee assignments and leadership is addressed in a timely manner.
- (d) Provide for a mechanism to solicit shareowner input.
- (e) Be disclosed to shareowners on an annual basis and in a manner that would not jeopardize the implementation of an effective and timely director succession plan.

INTERNATIONAL CORPORATE GOVERNANCE NETWORK

GLOBAL GOVERNANCE PRINCIPLES, 2014

Responsibilities of the Board include ensuring a formal, fair and transparent process for nomination, election & evaluation of directors and conducting an objective board evaluation on a regular basis, consistently seeking to enhance board effectiveness.

The nomination committee should evaluate the process for a rigorous review of the performance of the board, the company secretary (where such a position exists), the board's committees and individual directors prior to being proposed for re-election. The board should also periodically (preferably every three years) engage an independent outside consultant to undertake the evaluation.

The non-executive directors, led by the lead independent director, should be responsible for performance evaluation of the chair, taking into account the views of executive officers. The board should disclose the process for evaluation and, as far as reasonably possible, any material issues of relevance arising from the conclusions and any action taken as a consequence.

For the sake of convenience of the readers, the comparative table of Board Evaluation in various countries is given here:

COMPARATIVE TABLE OF BOARD EVALUATION IN VARIOUS COUNTRIES

	<i>UK</i>	<i>USA (NYSE Corporate Governance Guidelines)</i>	<i>SOUTH AFRICA</i>	<i>AUSTRALIA</i>	<i>SINGAPORE</i>
MODE	Internal and External facilitated evaluation	Annual self-evaluation	Internal and External evaluation (chairman or an independent provider.)	External facilitators is recommended	Internal and External evaluation
EVALUATION OF INDIVIDUAL DIRECTOR	The board should undertake a formal and rigorous annual evaluation of its individual directors.	An annual self-evaluation of the performance of the board of directors and its committees.	The evaluation of the individual directors should be performed every year. The nomination for the re-appointment of a director should only occur after the evaluation of the	The board has in place a formal and rigorous process for regularly reviewing the performance of the board, its committees and individual directors and addressing any issues that may emerge from that review.	There should be a formal annual assessment of the effectiveness of the contribution by each director to the effectiveness of the Board.

	Individual evaluation should aim to show whether each director continues to contribute effectively and to demonstrate commitment to the role.		performance and attendance of the director.		Individual evaluation should aim to assess whether each director continues to contribute effectively and demonstrate commitment to the role (including commitment of time for meetings of the Board and board committees, and any other duties)
EVALUATION OF BOARD	The board should undertake a formal and rigorous annual evaluation of its	-do-	The evaluation of the board should be performed every year.	-do-	There should be a formal annual assessment of the effectiveness

	<p>own performance.</p> <p>Evaluation of the board of FTSE 350 companies should be externally facilitated at least every three years.</p>		<p>The results of performance evaluations should identify training needs for directors.</p>		<p>of the Board as a whole.</p> <p>If an external facilitator has been used, the Board should disclose in the company's Annual Report whether the external facilitator has any other connection with the company or any of its directors.</p>
<p>EVALUATION OF BOARD COMMITTEES</p>	<p>The board should undertake a formal and rigorous annual evaluation of its committees.</p>	<p>-do-</p>	<p>The evaluation of the board committees should be performed every year.</p>	<p>-do-</p>	<p>There should be a formal annual assessment of the effectiveness of the board committees.</p>

					Nothing specific
EVALUATION OF CHAIRMAN	The non-executive directors, led by the senior independent director, should be responsible for performance evaluation of the chairman, taking into account the views of executive directors.	Nothing Specific	Chairman's ability to add value, and his performance against what is expected of his role and function, should be assessed every year.	A suitable non-executive director (such as the deputy chair or the senior independent director, if the entity has one), should be responsible for the performance evaluation of the chair, after having canvassed the views of the other directors.	
DISCLOSURES	The board should state in the annual report how performance evaluation of the board has been conducted.	The results of the self evaluation are not disclosed publicly.	An overview of the appraisal process, results and action plans should be disclosed in the integrated report.	A listed entity should: (a) have and disclose a process for periodically evaluating the	The Nomination Committee should decide how the Board's performance may be

			<p>the performance of the board, its committees and individual directors; and</p> <p>(b) disclose, in relation to each reporting period, whether a performance evaluation was undertaken in the reporting period in accordance with that process.</p>	<p>evaluated and propose objective performance criteria.</p> <p>The Board should state in the company's Annual Report how its assessment has been conducted.</p> <p>There should be a formal annual assessment of the effectiveness of the contribution by each director to the Board. The Board should state in the company's Annual Report how its assessment has been conducted.</p>
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Sample Policy for Evaluation of the Performance of the Board of Directors

EFFECTIVE DATE

1. INTRODUCTION

As one of the most important functions of the Board of Directors is to oversee the functioning of company's top management, this policy aims at establishing a procedure for conducting periodical evaluation of directors' performance and formulating the criteria for determining qualification, positive attribute and independence of each and every director of the company in order to effectively determine issues relating to remuneration of every director, key managerial personnel and other employees of the company. This policy further aims at ensuring that the committees to which the Board of Directors has delegated specific responsibilities are performing efficiently in conformity with the prescribed functions and duties. In addition, the Nomination and Remuneration Committee shall carry out the evaluation of performance of every director, key managerial personnel in accordance with the criteria laid down.

2. OBJECTIVE

The object of this policy is to formulate the procedures and also to prescribe and lay down the criteria to evaluate the performance of the entire Board of the Company.

3. RESPONSIBILITY

— *Responsibility of the Board*

It shall be the duty of the chairperson of the board, who shall be supported by a Company Secretary to organise the evaluation process and accordingly conclude the steps required to be taken. The evaluation process will be used constructively as a system to improve the directors' and

committees' effectiveness, to maximise their strength and to tackle their shortcomings.

The Board of Directors shall undertake the following activities on an annual basis

- The board as a whole shall discuss and analyze its own performance during the year together with suggestions for improvement thereon, pursuant to the performance objectives.
- Review performance evaluation reports of various committees along with their suggestions on improving the effectiveness of the committee. Also, the requirement of establishing any new committees shall be reviewed by the Board on an annual basis.
- Review the various strategies of the company and accordingly set the performance objectives for directors.
- Ensure that adequate disclosure is made with regard to performance evaluation in the Board's Report.
- *Responsibility of the Nomination & Remuneration Committee*
It shall evaluate the performance of individual Directors of the Company as per its terms of and the Nomination and Remuneration Policy of the Company framed in accordance with the provisions of section 178 of the Companies Act, 2013
- *Responsibility of Independent Directors*
Independent Directors are duty bound to evaluate the performance of non-independent directors and Board as a whole. The independent directors of the Company shall hold at least one meeting in a year to review the performance of non-independent directors, performance of the chairperson of the Company and Board as a whole, taking into account the views of executive directors and non-executive directors.
The independent directors at their separate meetings shall :
 - (a) review the performance of non-independent directors and the Board as a whole;
 - (b) review the performance of the Chairperson of the company, taking into account the views of executive directors and non-executive directors;

(c) assess the quality, quantity and timeliness of flow of information between the company management and the Board that is necessary for the Board to effectively and reasonably perform their duties.

- Evaluation of Independent Director shall be carried on by the entire Board of Directors of the Company except the Director getting evaluated.

4. POLICY REVIEW

Subject to the approval of Board of Directors, the “Nomination and Remuneration Committee” reserves its right to review and amend this policy, if required, to ascertain its appropriateness as per the needs of the company. The Policy may be amended by passing a resolution at a meeting of the Nomination and Remuneration Committee.

5. DISCLOSURE

In accordance with the requirement under the Act, disclosure regarding the manner in which the performance evaluation has been done by the Board of Directors of its own performance, performance of various committees of directors and individual directors’ performance will be made by the Board of Directors in the Board’s Report. Further, the Board’s Report containing such statement will be made available for the review of shareholders at the general meeting of the Company.

The Policy has been made available on Company’s official website and the key features of this Policy have also been included in the corporate governance statement contained in the annual report of the Company.

SAMPLE EVALUATION TOOLS

Rating Scale:

- 1. Outstanding,
- 2. Exceeds Expectation,
- 3. Meets Expectation,
- 4. Needs Improvement,
- 5. Poor

PART I

Board of Directors Evaluation

(By all the directors or externally facilitated)

<i>Criteria</i>	<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>	<i>5</i>	<i>How can the board do it better or differently</i>
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Board Composition & Quality

- 1 The Board has appropriate expertise and experience to meet the best interests of the company.
- 2 The board has appropriate combination of industry knowledge and diversity (gender, experience, background).

-
- 3 All the independent directors are independent in true letter and spirit i.e. whether the independent Director has given declaration of independence and they exercise their own judgement, voice their concerns and act freely from any conflicts of interests.
-
- 4 Board members demonstrate highest level of integrity (including maintaining confidentiality and identifying, disclosing and managing conflicts of interests).
-
- 5 The Board members spend sufficient time in understanding the vision, mission of the company and strategic and business plans, financial reporting risks and related internal controls and provides critical oversight on the same.
-
- 6 The Board understands the legal requirements and obligations under which they act as a Board; i.e. bylaws, corporate governance manual etc. and discharge their functions accordingly.
-
- 7 The Board has set its goals and measures its performance against them on annual basis.
-
- 8 The Board has defined its stakeholders and has appropriate level of communication with them.
-
- 9 The Board understands the line between oversight and management.
-

10 The board monitors compliances with corporate governance regulations and guidelines.

11 An effective succession plan of board in place.

12 The Board has the proper number of committees as required by legislation and guidelines, with well-defined terms of reference and reporting requirements.

Board Meetings and Procedures

1 The Annual Calendar of Board meetings is communicated well in advance and reviewed from time to time.

2 The Board meeting agenda and related background papers are concise and provide information of appropriate quality and detail.

3 The information is received by board members sufficiently in advance for proper consideration.

4 Adequacy of attendance and participation by the board members at the board meetings.

5 Frequency of Board Meetings is adequate.

6 The facility for video conferencing for conducting meetings is robust.

7 Location of Board Meeting(As a good governance practice the Board meeting should be held at different places).

8 The Board meetings encourage a high quality of discussions and decision making.

9 Openness to ideas and ability to challenge the practices and throwing up new ideas.

10 The amount of time spent on discussions on strategic and general issues is sufficient.

11 How effectively does the Board works collectively as a team in the best interest of the company?

12 The minutes of Board meetings are clear, accurate, consistent, complete and timely.

13 The actions arising from board meetings are properly followed up and reviewed in subsequent board meetings.

14 The processes are in place for ensuring that the board is kept fully informed on all material matters between meetings (including appropriate external information eg. emerging risks and material regulatory changes).

15 Adequacy of the separate meetings of independent directors.

-
- 16 Appropriateness of secretarial support made available to the Board.
-
- 17 The Board members understand the terms and conditions of D & O insurance.
-
- 18 All proceedings and resolutions of the Board are recorded accurately, adequately and on a timely basis.
-

Board Development

- 1 Appropriateness of the induction programme given to the new board members.
-
- 2 Timeliness and appropriateness of ongoing development programmes to enhance skills of its members
-
- 3 Appropriate development opportunities are encouraged and communicated well in time
-

Board Strategy and Risk Management

- 1 The time spent on issues relating to the strategic direction and not day-to-day management responsibilities
-
- 2 Engaging with management in the strategic planning process, including corporate goals, objectives and overall operating and financial plans to achieve them.
-

3 The Board has developed a strategic plan / policies and the same would meet the future requirement of the Company.

4 The Board has sufficient understanding of the risk attached with the business structure and the Board uses appropriate risk management framework and whether board reviewed and understood the risks provided in the internal audit report and the management is taken sufficient steps to mitigate the risk.

5 The Board evaluates the strategic plan/ policies periodically to assess the Company's performance, considers new opportunities and responds to unanticipated external developments.

6 The Risk management framework is subject to review.

7 Monitoring the implementation of the long term strategic goals.

8 Monitoring the company's internal controls and compliance with applicable laws and regulations.

9 The adequacy of Board contingency plans for addressing and dealing with crisis situations.

10 Appropriateness of effective vigil mechanism.

11 The Board focuses its attention on long-term policy issues rather than short-term administrative matters.

12 The Board discusses thoroughly the annual budget of the Company and its implications before approving it.

13 The Board periodically reviews the actual result of the Company vis-à-vis the plan/ policies devised earlier and suggests corrective measures, if required.

Board and Management Relations

1. The Board sets the overall tone and direction of the Company.

2. The Board has approved comprehensive policies and procedures for smooth conduct of all material activities by Company.

3. The Board has a range of appropriate performance indicators that are used to monitor the performance of management.

4. The Board is well informed on all issues (short and long-term) being faced by the Company.

5. The Board adequately reviews proposed departures from the long-and short- term business plans of the Company before they take place.

Succession Planning

1. The Board has a succession plan for the Chairperson and the Chief Executive Officer / Managing Director.

2. The Board reviews the existing succession plan and if appropriate, make necessary changes by taking into account the current conditions.

Outstanding Exceeds Expectation Meets Expectation Needs Improvement Poor

Overall rating of
Board performance

Comment

.....

.....

Please suggest three things that could improve Board's performance.

- a)
- b)
- c)

Name of Director:
.....

Signature:
.....

Date :
.....

If Externally facilitated,
Comments of evaluator:

PART II
MANAGING DIRECTOR / EXECUTIVE DIRECTOR ASSESSMENT FORM
 (By all the Board members)

<i>EVALUATION FACTOR</i>	<i>RATINGS</i>					<i>COMMENTS</i>
	<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>	<i>5</i>	
Leadership						
1. The MD / ED has shown clear vision in correctly anticipating business trends, opportunities, and priorities affecting the Company's prosperity and operations.						
2. The MD / ED has clearly translated his/her vision and strategy into feasible business or operational plans to achieve strategic success for the Company.						
3. The MD/ ED has accurately communicated his/her concept, vision, mission, strategies, goals, and directions for the Company to stakeholders.						
4. The MD / ED has motivated and encouraged high						

employee morale and loyalty to the organization, and facilitated team-building and cohesiveness among the Company's employees to achieve the Company's vision.

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5. The MD / ED is open to constructive suggestions, and exercised effective leadership for the organization.

6. The MD / ED has been an initiator, setting high working standards and pursuing goals with a high level of personal drive and energy.

Strategy Formulation

7. The MD / ED has developed clear mission statements, policies, and strategic plans that harmoniously balance the needs of shareholders, clients, employees, and other stakeholders.

8. The MD/ED has accurately identified and analyzed problems and issues confronting the Company.

9. The MD/ED has accurately determined and assessed key success factors for formulating the Company's strategy.

A Guide to Board Evaluation

-
10. The MD/ED has ensured that board members, senior management and other employees had participated in the formulation of strategic plans so that they had the ownership of the plans.

 11. The MD/ED has assured that company's resources and budgets are aligned to the implementation of the organization's strategic plan.

 12. The MD/ED has established processes that did the monitoring and controlling works, thus ensuring that the effectiveness of organizational performance, including risk management, was achieved.
-

Strategy execution

13. The MD/ED has established an effective organization structure, ensuring that there is management focus on key functions necessary for the organization to align with its mission.

 14. The MD/ED has organized and delegated work accurately, and has performed his or her functions within his/her scope of responsibility.
-

-
15. The MD/ED has consistently made sound decisions and made timely adjustments in strategies, if required.

 16. The MD/ED has timely and effectively executed strategies on priorities and with measures set by the Board.

 17. The MD/ED has accurately supervised performance monitoring and performance control to ensure accountability at all levels of the organization.

 18. The MD/ED has ensured that the company's operations complied with requirements from all pertinent laws and regulations.

Financial planning / performance

19. The MD/ED has possessed a good understanding of the company's financial measures relevant to its business and financial situation.

20. The MD/ED has exercised good judgment in managing the financial affairs and budgets of the organization.

21. The MD/ED has effectively monitored and evaluated financial planning, budget and administrative operations.

Relationships with the Board

- 22. The MD/ED has built strong working relationships with Board members and has worked closely and cooperatively with the board in developing the mission, and short, medium and long-term strategic plans.

- 23. The MD/ED has demonstrated a sound knowledge of Board governance procedures and has consistently followed them.

- 24. The MD/ED has presented information to the board on items requiring Board opinions and decisions in a professional manner, with recommendations based on thorough study and sound principles.

- 25. The MD/ED has been available to individual Board members whenever necessary, as well as supported the board in its governance duties by providing necessary resources and other facilities.

External Relations

- 26. The MD/ED has served as an effective Company's representative in communicating with all stakeholders.
-

27. The MD/ED has encouraged corporate social responsibility and community involvement in promoting a positive image of Company.

28. The MD/ED has assured that the Company maintains positive relationships in the community and cultivates good working relationships with community groups and organizations.

Human Resources Management/Relations

29. The MD/ED has created and maintained an organizational culture and climate which attracts, keeps and motivates staff to carry out the Company's mission, strategic directions and organizational goals.

30. The MD/ED effectively monitors procedures and practices pertaining to human resources, including appraisal process and rewarding systems for management and employees.

31. The MD/ED has ensured that the company has good internal communication and treated all personnel fairly, without favoritism or discrimination.

Succession

- 32. The MD/ED has effectively reviewed the Company's succession plan, and, if appropriate, made necessary changes by taking into account conditions that are external or internal to the Company.

- 33. The MD/ED has put in place the processes and programs required to create a pipeline of future leadership.

Product/Service Knowledge

- 34. The MD/ED has demonstrated a thorough knowledge and understanding about key aspects of the Company's products and services.

- 35. The MD/ED has demonstrated a thorough knowledge and understanding of Company management and operations.

- 36. The MD/ED has a good understanding of the company's business model and allocation of its resources, as well as business and industry environment.

- 37. The MD/ED has regularly demonstrated creativity and initiative in creating new products and services.

Personal Qualities

38. The MD/ED has attained an image that reflects positively on the company, as well as demonstrated a personality, outlook, and attitude that wins trust and support from all stakeholders.

39. The MD/ED has exercised good judgment in dealing with sensitive issues between people and between groups.

40. The MD/ED has shown skills at analyzing and addressing problems, challenges and conflicts, and has been comfortable with ambiguity and complexity.

41. The MD/ED has maintained a high standard of ethics and integrity, as well as a healthy balance of time management and priorities in both work-related and personal matters.

Outstanding Exceeds Expectation Meets Expectation Needs Improvement Poor

Overall rating of
Overall rating of
Managing Director /
Executive Director's
performance

Comment

.....

.....

Please suggest three things that could improve Board's performance.

a)

b)

c)

Name of Director:

Signature:

Date :

PART III

DIRECTOR SELF ASSESSMENT/ PEER REVIEW

<i>Criteria</i>	<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>	<i>5</i>
KNOWLEDGEABLE					
1 Understands duties, responsibilities, qualifications, disqualifications and liabilities as a director.					
2 Brings relevant experience to the board and uses it effectively.					
3 Understands the vision and mission of the company, strategic plan and key issues.					
4 Staying abreast of issues, trends and risks (including opportunities and competitive factors) affecting the company, and using this information to assess and guide the company's performance.					
5 Takes advantage of opportunity to upgrade skills by regularly attending professional development programmes.					
6 The management communications are sufficient to enhance company specific updates.					

DILIGENCE & PARTICIPATION

- 1 Regularly and constructively attend board, committee and general meetings.

- 2 Prepares in advance for board and committee meetings.

- 3 Communicates opinions and concerns in a persuasive yet clear and concise manner.

- 4 Uses Independent judgement in relation to decision making.

- 5 Facilitates and encourages change when it would improve board processes.

- 6 Encourages other members to contribute their opinions.

- 7 Raises appropriate issues at meetings and asking the appropriate questions for clarity.

- 8 Contributions add value to the decision making.

- 9 Gets dissent recorded in minutes.

- 10 Maintains confidentiality.

11 Abides by the legal obligations and code of conduct.

12 Reports concerns about unethical behaviour, actual and suspected fraud.

LEADERSHIP TEAM

1 Listens attentively to the contributions of others.

2 Initiates discussions on issues in company's interest.

3 Shares good interpersonal relationship with other directors.

4 Supportive and cooperative.

5 Respected by board members.

6 Insists on receiving information necessary for decision making to all the directors.

7 Manages conflicts of interest in best interest of the company.

8 Safeguard the interest of all stakeholders in the decision making.

9 Personal values are in congruence with that of the company.

PART IV

NON-EXECUTIVE DIRECTOR AND INDEPENDENT DIRECTOR EVALUATION FORM

(PEER REVIEW- by Directors other than director being evaluated)

Name of the Director: _____;

Category: Independent / Non-executive

PART A

<i>EVALUATION FACTOR</i>	<i>RATINGS</i>					<i>COMMENTS</i>
	<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>	<i>5</i>	
Participation at Board/ Committee Meetings						
1. Director comes well prepared and informed for the Board / committee meeting(s).						
2. Director demonstrates a willingness to devote time and effort to understand the Company and its business and a readiness to participate in events outside the meeting room, such as site visits?						
3. Director has ability to remain focused at a governance level in Board/ Committee meetings.						

4. Director's contributions at Board / Committee meetings are of high quality and innovative.

5. Director's proactively contributes in to development of strategy and to risk management of the Company.

Managing Relationship

6. Director's performance and behaviour promotes mutual trust and respect within the Board / Committee.

7. Director is effective and successful in managing relationships with fellow Board members and senior management ?

Knowledge and Skill

8. Director understands governance, regulatory, financial, fiduciary and ethical requirements of the Board / Committee.

9. Director actively and successfully refreshes his/ her knowledge and skills and up to date with the latest developments in areas such as corporate governance framework, financial reporting and the industry and market conditions.

10. Director is able to present his/ her views convincingly yet diplomatically.

11. Director listens and takes on Board the views of other members of Board.

Personal Attributes

12. Director has maintained high standard of ethics and integrity.

Outstanding Exceeds Expectation Meets Expectation Needs Improvement Poor

Overall rating of Committee performance

Comment

Please suggest three things that could improve Board's performance. Name of Director:
a) Signature:
b) Date :
c)

Part - B

If concerned director is “Independent Director” then in addition to Part-A of this sample tool this may also be used.

Name of the Director: _____;

Category: Independent

<i>EVALUATION FACTOR</i>	<i>RATINGS</i>					<i>COMMENTS</i>
	<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>	<i>5</i>	
1. Director upholds ethical standards of integrity and probity.						
2. Director exercises objective independent judgment in the best interest of Company.						
3. Director has effectively assisted the Company in implementing best corporate governance practice and then monitors the same.						
4. Director helps in bringing independent judgment during board deliberations on strategy, performance, risk management etc.						
5. Director keeps himself/ herself well informed about the Company and external environment in which it operates.						

-
6. Director acts within his authority and assists in protecting the legitimate interest of the Company, Shareholder and employees.
-
7. Director maintains high level of confidentiality.
-
8. Director adheres to the applicable code of conduct for independent directors
-

Outstanding Exceeds Expectation Meets Expectation Needs Improvement Poor

Overall rating of
Director performance

Comment

.....

.....

Please suggest three things that could improve Board's performance.

- a)
- b)
- c)

Name of Director:

.....

Signature:

.....

Date :

.....

PART V
EVALUATION OF BOARD COMMITTEES
 (By Board of Directors)

<i>Criteria</i>	<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>	<i>5</i>	<i>How can the board do it better or differently</i>
Function and Duties						
1	The Committee of the Board are appropriately constituted.					
2	The terms of reference for the committee are appropriate with clear defined roles and responsibilities.					
3	Observing Committees terms of reference.					
4	The composition of the committee is in compliance with the legal requirement.					
5	The amount of responsibility delegated by the Board to each of the committees is appropriate.					
6	The reporting by each of the Committees to the Board is sufficient.					

7 The performance of each of the Committees is assessed annually against the set goals of the committee.

8 Whether the terms of reference are adequate to serve committee's purpose?

9 The committee regularly reviews its mandate and performance.

10 Committee takes effective and proactive measures to perform its functions.

Management Relations

12 Committee gives effective suggestion and recommendation.

13 Committee meetings are conducted in a manner that encourages open communication and meaningful participation of its members.

Committee Meetings and Procedures

14 Committee meetings have been organized properly and appropriate procedures were followed in this regard?

15 The frequency of the Committee meetings is adequate.

16 Committee makes periodically reporting to the Board along with its suggestions and recommendations.

Outstanding Exceeds Expectation Meets Expectation Needs Improvement Poor

Overall rating of
Board performance

Comment

.....

.....

Please suggest three things that could improve Board's performance.

Name of Director:

- a)
- b)
- c)

.....

Signature:

.....

Date :

.....

The participation and effective functioning of the committee meetings the questions may remain the same as for Board meetings.

PART VI
CHAIRPERSON ASSESSMENT
 (By each Board member)

<i>EVALUATION FACTOR</i>	<i>RATINGS</i>					<i>COMMENTS</i>
	<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>	<i>5</i>	
Managing Relationships						
1. The Chairperson actively manages shareholder, board, management and employee relationships and interests.						
2. The Chairperson meets with potential providers of equity and debt capital, if required.						
3. The Chairperson manages meetings effectively and promotes a sense of participation in all the Board meetings.						
Leadership						
4. The Chairperson is an effective leader.						
5. The Chairperson promotes effective participation of all Board members in the decision making process.						

6. The Chairperson promotes the positive image of the Company.

7. The Chairperson promotes continuing training and development of directors.

Outstanding Exceeds Expectation Meets Expectation Needs Improvement Poor

Overall rating of Chairperson's performance

Comment

.....

.....

Please suggest three things that could improve Board's performance.

- a)
- b)
- c)

Name of Director:

.....

Signature:

.....

Date :

.....

SAMPLE BOARD ASSESMENT MODELS

Deloitte*

Sample Board Performance Form

Select the appropriate rating for each statement

- 0** Insufficient knowledge/ Not applicable
- 1** Strongly disagree
- 5** Strongly agree

0 1 2 3 4 5

Composition and Quality

1. Qualified board members are identified by sources independent of management (e.g., independent board members assisted by an independent firm in the search for candidates).

2. Board members have the appropriate qualifications to meet the objectives of the board's charter, including appropriate financial literacy.

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-
3. The board demonstrates integrity, credibility, trustworthiness, active participation, an ability to handle conflict constructively, strong interpersonal skills, and the willingness to address issues proactively.

 4. The board demonstrates appropriate industry knowledge and includes a diversity of experiences and backgrounds.

 5. Members of the board meet all applicable independence requirements.

 6. The board participates in a continuing education program to enhance its members' understanding of relevant risk, reporting, regulatory, and industry issues.

 7. The board monitors compliance with corporate governance regulations and guidelines.

 8. The board reviews its charter annually to determine whether its responsibilities are described adequately.

 9. New board members participate in an orientation program to educate them on the organization, their responsibilities, and the organization's activities.

 10. The board chairman is an effective leader.

 11. The board, in conjunction with the nominating committee (or its equivalent), creates a succession and rotation plan for board members, including the board chairman.
-

Select the appropriate rating for each statement

0 1 2 3 4 5

Understanding the Business, including Risks

1. The board takes into account significant risks that may directly or indirectly affect the organization. Examples include:
 - Regulatory and legal requirements
 - Concentrations (e.g., suppliers and customers)
 - Market and competitive trends
 - Financing and liquidity needs
 - Financial exposures
 - Business continuity
 - Organization reputation
 - Strategy execution
 - Management’s capabilities
 - Management override
 - Fraud control
 - Organization pressures, including “tone at the top”

 2. The board considers, understands, and approves the process implemented by management to effectively identify, assess, and respond to the organization’s key risks.
-

3. The board understands and approves management's fraud risk assessment and has an understanding of identified fraud risks.

4. The board considers the organization's performance versus that of its peers in a manner that enhances comprehensive risk oversight by using reports provided directly by management to the board or at the full board meeting. These may include benchmarking information comparing the organization's performance and ratios with industry and peers, industry trends, and budget analysis with explanations for areas where significant differences are apparent.

Select the appropriate rating for each statement

0 1 2 3 4 5

Process and Procedures

1. The board develops a calendar that dedicates the appropriate time and resources needed to execute its responsibilities.

2. Board meetings are conducted effectively, with sufficient time spent on significant or emerging.

3. The level of communication between the board and relevant parties is appropriate; the board chairman encourages input on meeting agendas from committee and board members, management, the internal auditors, and the independent auditor.

-
4. The agenda and related information are circulated in advance of meetings to allow board members sufficient time to study and understand the information.

 5. Written materials provided to board members are relevant and concise.

 6. Meetings are held with enough frequency to fulfill the board's duties and at least quarterly, which should include periodic visits to organization locations with key members of management.

 7. The board maintains adequate minutes of each meeting.

 8. The board and the compensation committee regularly review management incentive plans to consider whether the incentive process is appropriate.

 9. The board meets periodically with the committee responsible for reviewing the organization's disclosure procedures.

 10. The board respects the line between oversight and management.

 11. Board members come to meetings well prepared.

Select the appropriate rating for each statement

0 1 2 3 4 5

74

Oversight of the Financial Reporting Process, including Internal Controls

1. The board considers the quality and appropriateness of financial accounting and reporting, including the transparency of disclosures.

2. The board reviews the organization’s significant accounting policies.

3. The board makes inquiries of the independent auditor, internal auditors, and management on the depth of experience and sufficiency of the organization’s accounting and finance staff.

4. The board reviews the management recommendation letters written by the independent and internal auditors and monitors the process to determine that all significant matters are addressed.

5. The board ensures that management takes action to achieve resolution when there are repeat comments from auditors, particularly those related to internal controls.

6. Adjustments to the financial statements that resulted from the audit are reviewed by the audit committee, regardless of whether they were recorded by management.

7. The board is consulted when management is seeking a second opinion on an accounting or auditing matter.

Oversight of Audit Functions

8. The board understands the coordination of work between the independent and internal auditors and clearly articulates its expectations of each.

9. The board appropriately considers internal audit reports, management’s responses, and steps toward improvement.

10. The board oversees the role of the independent auditor from selection to termination and has an effective process to evaluate the independent auditor’s qualifications and performance.

11. The board considers the independent audit plan and provides recommendations.

12. The board reviews the audit fees paid to the independent auditor.

13. The board comprehensively reviews management’s representation letters to the independent auditor, including making inquiries about any difficulties in obtaining the representations.

Select the appropriate rating for each statement

0 1 2 3 4 5

76

Ethics and Compliance

1. Board members oversee the process and are notified of communications received from governmental or regulatory agencies related to alleged violations or areas of non-compliance.

2. The board oversees management’s procedures for enforcing the organization’s code of conduct.

3. The board determines that there is a senior-level person designated to understand relevant legal and regulatory requirements.

4. The board oversees the organization’s hotline or whistleblower process, reviews the log of incoming calls that relate to possible fraudulent activity, and understands the procedures to prohibit retaliation against whistleblowers.

Monitoring Activities

5. An annual performance evaluation of the board is conducted and any matters that require follow-up are resolved and presented to the full board.

Overall evaluation

Use the space below to conclude on the overall results taking into account the quantitative results of this self-assessment and qualitative factors not considered above.

SAMPLE II

GENOME CANADA**

Introduction

The purpose of this evaluation tool is to assist the Board of Directors to:

- understand and recognize what is working well;
- identify areas for improvement;
- discuss and agree on priorities for change which can be addressed in the short-and-long-term;
- agree on an action plan.

It is intended that this evaluation tool will be completed annually by each director of Genome Canada's Board of Directors. The Corporate Governance Committee will have responsibility to oversee the implementation of this evaluation tool, including discussing a summary of the results, and preparation of a final report with recommendations to the Board of Directors.

In order to encourage open and frank evaluations, as well as offer anonymity to respondents, the evaluation process shall be directed by the Corporate Secretary, who will mail the questionnaire to each director as well as collate the results into a report which will be submitted to the Corporate Governance Committee.

The questionnaire is structured in two parts:

PART 1 – Director Self Assessment

PART 2 – Board of Directors Evaluation

Both parts of the questionnaire are to be completed and sealed in the attached envelope and returned to the Corporate Secretary.

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PART 1 - DIRECTOR SELF ASSESSMENT

Background

Genome Canada does not undertake a formal evaluation process for each director. Rather, it promotes a self assessment by directors of their own performance.

Assessment Criteria for Individual Directors

The following criteria are useful in determining how effective a Director's performance results in:

- contributing to corporate leadership and stewardship
- contributing to achievement of corporate objectives
- understanding Genome Canada's mandate, strategic plan, and key issues
- constructive contribution to resolution of issues at meetings
- communicating expectations & concerns clearly
- obtaining adequate, relevant & timely information
- promotion of corporation's interests externally
- interpersonal relationships with other directors and management
- attendance, confidentiality and preparation for meetings

PART 1 - DIRECTOR SELF-ASSESSMENT**Rating Scale :**

On a scale from 1 to 5 with 1 being “ Strongly Disagree” and 5 being “ Very Strongly Agree” please rate your performance as a director based on the following :

<i>Assessment Criteria</i>	<i>Strongly Disagree</i>	<i>Disagree</i>	<i>Agree</i>	<i>Strongly Agree</i>	<i>Very Strongly Agree</i>
	<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>	<i>5</i>
1 I have a good understanding of Genome Canada’s mandate, strategic plan and key issues.					
2 I understand the difference between governing and managing a corporate enterprise and avoid intruding on management’s responsibilities.					
3 My special skills/ expertise provide a unique contribution to the board’s overall effectiveness.					
4 I have good interpersonal relationships with the other directors.					
5 I think, speak and act independently in relation to decisions the board must make.					

6 I facilitate and encourage change when it would improve board processes.

7 I make a measured and appropriate contribution to board discussions and deliberations.

8 I am sensitive to the complex relationships which naturally exist among the board chair, the independent directors and the president and CEO.

9 I come to meetings well prepared- having done the necessary prior reading and having consulted other directors and/or management if required.

10 I have a good knowledge of the responsibilities of Genome Canada's management team and am able to consult with members of the management team, as required.

11 I promote Genome Canada's corporate interests externally.

12 I respect the confidentiality of business information and our board's deliberations.

13 I understand the legal and fiduciary obligations of individual directors and of the board as a whole.

14 I have a sufficient knowledge of Genome Canada's as a legal entity and not-for-profit corporation, as well as an understanding of its relationship with industry Canada and other federal departments.

15 When it is appropriate I communicate privately and constructively with the chair and/or President and CEO between meetings.

16 I expect high levels of performance from myself, my fellow directors and management.

17 I ask probing questions focused on policy and strategy rather than tactics and details.

18 I insist that I and the other directors receive information necessary for decision making.

19 I make a meaningful contribution when I serve on a board committee.

20 My attendance rate at meetings is satisfactory.

21 I serve as a resource to the board and to management.

22 I introduce new thinking and a fresh perspective to problem solving.

23 My attitude is positive, supportive and enthusiastic.

24 My personal value and ethical system is congruent with that of the board and the corporation.

Additional Comments:

PART 2 - BOARD OF DIRECTORS EVALUATION

Background

The Board of Directors should undergo on an annual basis, a review of its performance against established criteria, for purposes of assessing its effectiveness.

Assessment Criteria

The following criteria assist in determining how effective the Board's performance is in:

- leadership
- stewardship
- contributing to achievement of corporate objectives

- timely resolution of issues at meetings
- communications of expectations & concerns clearly
- obtain adequate, relevant & timely information
- review & approval of strategic and operational plans, objectives, budgets
- regular monitoring of corporate results against projections
- identify, monitor & mitigate significant corporate risks
- assess policies, structures & procedures
- direct, monitor & evaluate President and CEO
- review management's succession plan
- effective meetings
- formal communications policy for corporation
- corporation's approach to governance
- accountability
- assuring appropriate board size, composition, independence, structure
- clearly defining roles & monitoring activities of committees
- review of corporation's ethical conduct

PART 2 BOARD OF DIRECTORS EVALUATION

Rating Scale

On a scale from 1 to 5 with 1 being “Strongly Disagree” and 5 being “Very Strongly Agree” please rate the Board’s performance against the following criteria.

Note: Additional comments are welcome.

<i>Assessment Criteria</i>	<i>Strongly Disagree</i>	<i>Disagree</i>	<i>Agree</i>	<i>Strongly Agree</i>	<i>Very Strongly Agree</i>
	1	2	3	4	5

Strategic Plan and Performance

- 1 The Board understands the vision, mission and objectives of Genome Canada.

- 2 The Board is involved in the strategic planning process, including corporate goals, objectives and overall operating and financial plans to achieve them.

- 3 The Board focuses on strategic issues and regularly assesses performance against its strategic plans and goals.

4 The Board monitors financial and other indicators throughout the year, and takes appropriate action as required.

5 The Board regularly assesses strategic and operating risks and takes appropriate action as required.

6 The Board understands the legal requirements and obligations under which they act as a Board; i.e., bylaws, funding agreement, corporate governance manual.

7 The Board has adopted and maintains a senior management succession planning process and is satisfied with succession planning for the CEO.

8 The Board appropriately relates the compensation of the president and CEO to performance.

9 The Board is diligent in verifying the integrity of its financial and management controls and systems.

10. The Board is made aware of Genome Canada's communications with key stakeholders; i.e. media, government, general public.

Additional Comments:

Management Interaction

- 11 The Board has sufficient formal and informal contact with the President and CEO.
-
- 12 The Board has sufficient formal and informal contact with other management personnel.
-
- 13 The Board is able function independently of Management and has the mechanisms in place to maintain that distinction.
-
- 14 The Board understands the difference between its role and that of management.
-
- 15 The Board receives appropriate advice and counsel from management.
-

Additional Comments

Board of Director Operations

- 16 The Board has an effective process for maintaining its size and compositions to provide appropriate expertise and experience to meet the best interests of Genome Canada.
-

17 The Board has an adequate process for orientating and educating new Directors.

18 The number and length of Board meetings is appropriate.

19 The amount of time spent on discussions on strategic and general issues is sufficient.

20 The chair conducts the meetings in a respectful manner that ensure open communication and meaningful participation.

21 The chair communicates with directors between meetings as necessary and appropriate.

22 The amount of information received in board packages is appropriate for discussion and decision making purposes.

23. The Board materials are received sufficiently in advance to adequately prepare for meetings.

Additional Comments:

Committee Structure ° Executive ° Audit ° Investment ° Election ° Corporate Governance ° Compensation

- 24 The Committee structure is appropriate.

- 25 The delegation of responsibilities by the Board to its committee is appropriate.

- 26 The composition of the committee is appropriate.

- 27 The number and length of committee meetings is appropriate.

- 28 The meetings are conducted in a manner that ensures open communication and meaningful participation.

- 29 The amount of information received is appropriate for discussion and decision making purposes

- 30 The materials are received sufficiently in advance to adequately prepare for meetings.

- 31 The committee regularly reviews its mandate and performance.

Additional Comments:

List the top three priorities requiring attention in order for the Board of Directors to function more effectively.

1

2

3

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SAMPLE III

KPMG

AUDIT COMMITTEE INSTITUTE, IRELAND***

More Satisfied 1 2 3 (Tick any one)

Less satisfied 4 5 (Tick any one)

<i>A. Creating an effective board</i>	1	2	3	4	5	<i>What could the board do better or differently?</i>
1. Are you satisfied that the board has clearly documented its role and responsibilities (e.g. schedule of matters reserved for the board , split of the chairman's role and that of the CEO)?						
2. Are you satisfied that board members, both individually and collectively, understand what is expected of them (e.g. determining the company's strategic aims)?						
3. Are you satisfied that all non executive directors are independent of the organisation's management and exercise their own judgement; voice their own opinions; and act freely from any conflicts of interest?						
4. Are you satisfied with the process by which board members are appointed?						

-
5. Are you satisfied with the appropriateness of the succession plans in place?
-
6. Are you satisfied that board members, as a whole, have sufficient skills, experience, time and resources to undertake their duties?
-
7. Are you satisfied that there is sufficient diversity in the boardroom (e.g. diversity of experience, balance between non executive and executive director is appropriate)?
-
8. Are you satisfied that board members have a sufficient understanding of the organisation and the sector in which it operates?
-
9. Are you satisfied that all board member demonstrate the highest level of integrity (including maintaining utmost confidentiality and identifying disclosing and managing conflicts of interest).
-
10. Are you satisfied with the level of 'secretarial support' placed at the board's disposal?
-
11. Are you satisfied with the process in place to make funds available to the board to take independent legal, accounting or other advice when it reasonably believes it necessary to do so?
-

B. *Running an effective board*

1 2 3 4 5 *What could the board do better or differently?*

92

1. Are you satisfied that the board has in place a set of objectives that seek to enhance its effectiveness?

2. Are you satisfied with the chairman's leadership style (e.g., are they decisive, open minded and courteous; do they set a good example, allow members to contribute and hold members to high standards; do they relate well to other members/attendees, deal effectively with dissent and work constructively towards consensus)?

3. Are you satisfied that the board's workload is dealt with effectively?

4. Are you satisfied that board members work together constructively as a team?

5. Are you satisfied that board meetings are conducted in a manner which encourages open discussion, healthy debate and allows each board member to clearly add value to discussion and decisions?

6. Are board meetings conducted in an atmosphere of creative tension?

A Guide to Board Evaluation

-
7. Are you satisfied that the relationship between a) the board and b) the CEO, CFO and members of the senior management team strikes the right balance between challenge and mutuality?

 8. Are you satisfied that the board's discussions enhance the quality of management's decision making (e.g.: does the board engage those reporting to the board in dialogue that stimulates and enhance their thinking and performance)?

 9. Are you satisfied that the board's schedule of matters is up to date and regularly reviewed?

 10. Are you satisfied that the board's meeting arrangements (e.g., frequency, timing, duration, venue and format) enhance its effectiveness?

 11. Are you satisfied that the board's meeting agenda has sufficient input from all board members?

 12. Are you satisfied that board meetings allow sufficient time for the discussion of substantive matters?

 13. Are you satisfied that board meeting agendas and related background information are circulated in a timely manner to enable full and proper consideration to be given to the important issues?
-

14. Are you satisfied with the quality of the board papers (e.g., not overly lengthy and clearly explain the key issues and priorities)?

15. Are you satisfied that the board has the appropriate committees with necessary chargers?

16. Are you satisfied that the board is adequately informed of each committee's activities?

17. Are you satisfied that private meetings without the executive directors present are useful?

18. Are you satisfied that the board's meeting minutes are clear, accurate, consistent, complete and timely?

19. Are you satisfied that outstanding actions arising from board meetings are properly followed up?

20. Are you satisfied that the processes in place for ensuring the board is kept fully informed on all material matters between meetings (including appropriate external information e.g. emerging risks and material regulatory changes) is working effectively?

<i>C. Professional development</i>	1	2	3	4	5	<i>What could the board do better or differently?</i>
1. Are you satisfied that new board members are given an appropriate induction programme covering issues like: the role of the director; its terms of references; members' expected time commitment; an overview of the organisation and its strategic objectives?						
2. Are you satisfied with timeliness and appropriateness of ongoing professional development received by the board (e.g. regulatory matters director's liability)?						
3. Are you satisfied that board members are afforded appropriate opportunities to attend formal courses and conferences, internal talks and seminars, and briefings by external advisers such as the organisation's auditors and lawyers?						
4. Are you satisfied that any induction and professional development programmes adequately equip board members to understand the business environment in which organisation operates?						

D. *Strategic foresight*

1 2 3 4 5 *What could the board do better or differently?*

96

1. Are you satisfied that the board devotes significant time to determining (via management and other sources) the emerging issues that could affect the organisation in the future?

2. Are you satisfied that the board has a good understanding of the company's key drivers of performance?

3. Are you satisfied that the board appropriately uses scenario planning as a fundamental process in the evaluation of strategic risks?

4. Are you satisfied that the majority of the board's time is spent on issues relating to the strategic direction and not day-to-day management responsibilities?

5. Are you satisfied that the organisation's purpose (mission) and vision been defined and clearly communicated to all levels within the organisation?

<i>E. Stewardship</i>	<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>	<i>5</i>	<i>What could the board do better or differently?</i>
1. Are you satisfied that the board understands and fulfils its stewardship role?						
2. Are you satisfied that the company’s risk management processes provide to the board a full understanding of the high risk issues that could impact the organisation?						
3. Are you satisfied that the board understands the details of the control assurance framework including reporting scope and timeliness?						
4. Are you satisfied that board members are fully informed in relation to the issues not covered by the existing Directors and Officers Insurance?						
5. Are you satisfied that there is an adequate policy in place for dealing with potential conflicts of interest and confidential information?						

F. *Performance evaluation*

1 2 3 4 5 *What could the board do better or differently?*

98

1. Are you satisfied that your existing range of financial and non-financial performance measures are board enough to monitor management's performance?

2. Are you satisfied that your existing performance measures are linked to the organisation's strategy?

3. Are you satisfied that the organisation's performance is adequately benchmarked against its peers?

4. Are you satisfied that management's remuneration is appropriately linked to the organisation's performance and an appropriate peer group?

5. Are you satisfied that the board has in place an appropriate process for regular board, committee and individual board member evaluation?

6. Are you satisfied that all actions arising from performance evaluation are followed up?

7. Are you satisfied that the board performance assessment process enhances board effectiveness?

<i>G. Managing management</i>	1	2	3	4	5	<i>What could the board do better or differently?</i>
1. Are you satisfied that the board has an agreed process to adequately support the CEO?						
2. Are you satisfied that the board has in place a rigorous process to evaluate the performance of the CEO, with input from all non executive board members?						
3. Are you satisfied that the board is appropriately engaged in CEO/ senior management succession planning?						
4. Are you satisfied that there are appropriate delegation authorities in place for management and that they are regularly reviewed?						
5. Are you satisfied that the organisation's culture encourages board members to discuss agenda and other issues with senior management?						
6. Are you satisfied that bad news is communicated to the board as it arises?						
7. Are you satisfied that the CEO and senior management receive constructive support from the board?						

H. Value creation

1 2 3 4 5 What could the board do better or differently?

100

1. Are you satisfied that the board has clearly identified the organisation's major stakeholders and the 'value' each requires?

2. Are you satisfied that there are systems in place to allow the board to measure whether the organisation is creating or destroying major stakeholder value?

3. Are financial and non financial value drivers in place to focus on the enhancement of value ?

4. Is your existing decision making process (including the present structure of management proposals) adequate to properly assess whether proposals create major stakeholder value?

5. Is your organisation creating major stakeholder value?

6. Does the board/ management have adequate mechanisms for communicating with major stakeholders?

A Guide to Board Evaluation

I. Corporate culture 1 2 3 4 5 What could the board do better or differently?

1. Are you satisfied that the board's comprehension of the organisation's purpose, vision and strategic plan is reflected in actions taken in the boardroom?

 2. Are you satisfied that the board plays an appropriate pro- active role in change?
-

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