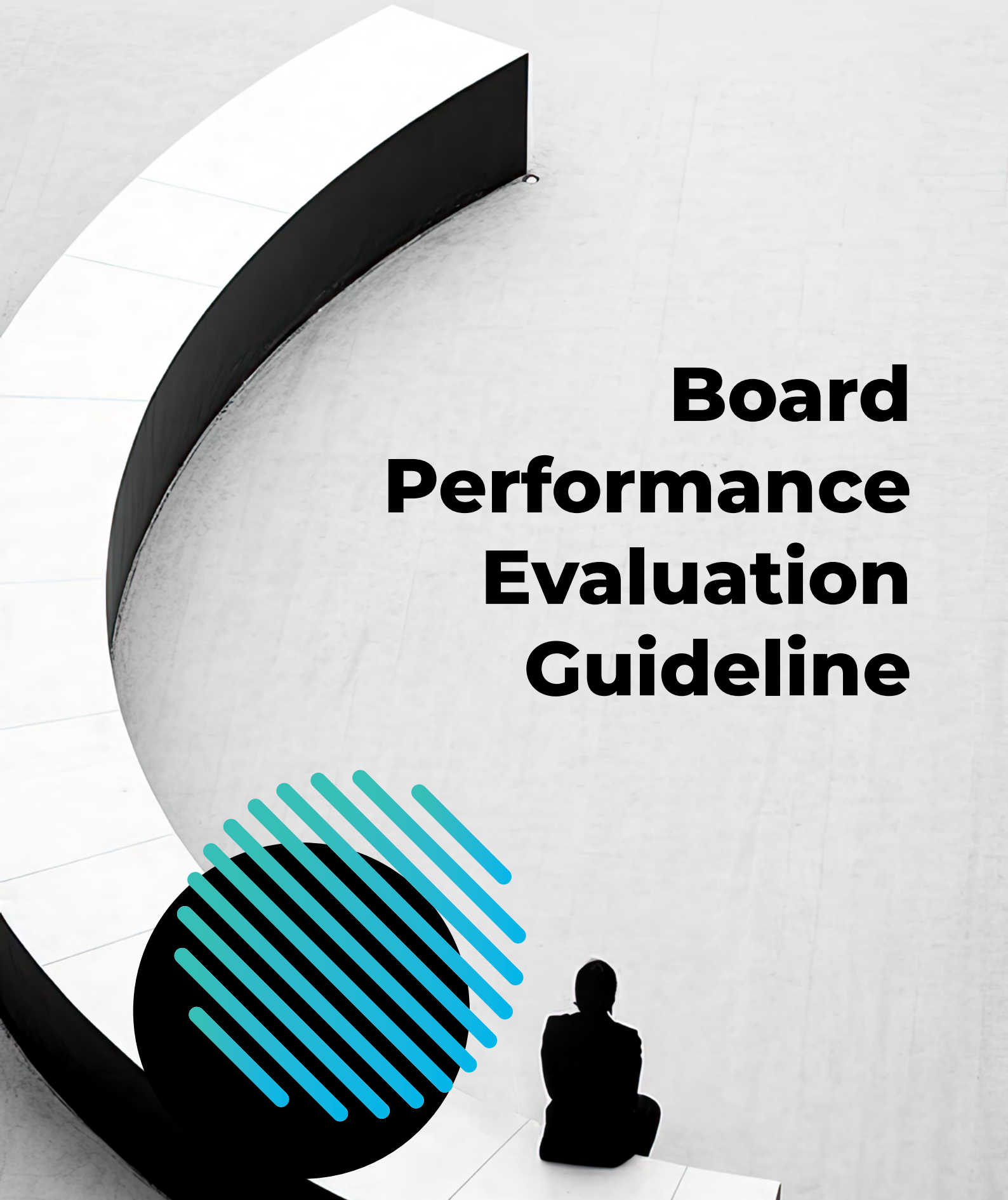




GLOBAL NETWORK OF  
DIRECTOR INSTITUTES

# Board Performance Evaluation Guideline



# 01

## Introduction

A high performing, effective board does not just “happen”. It takes continuous commitment, reflection and effective leadership. There are a number of factors that contribute towards the effectiveness of a board, one of which is conducting regular board evaluations.

The purpose of this guideline is to provide a global view of common practices related to board performance evaluations<sup>1</sup> and key considerations to ensure a valuable evaluation is undertaken.



<sup>1</sup> Different terminology is used across the globe to describe the assessment of the board's performance. In this paper we use the word evaluation, however this also can be interpreted to mean a performance review, assessment, appraisal and so on. It has been raised that the terminology used can be contentious or create unintended perceptions in different regions. For example, the word "evaluation" may be perceived to mean a formal assurance and thus the term performance review is used to avoid such inference and indicate that the assessment is not a formal audit. Whichever terminology is used, the purpose remains the same and the same considerations as outlined in this Paper should be taken into account.

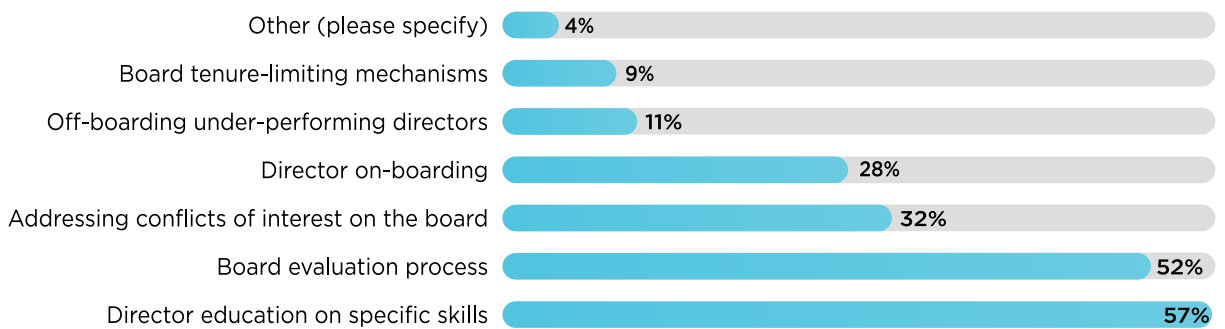
# 02

## Purpose and Benefits

By conducting regular board performance evaluations, the board is able to reflect, review and improve its performance as a collective and individually.

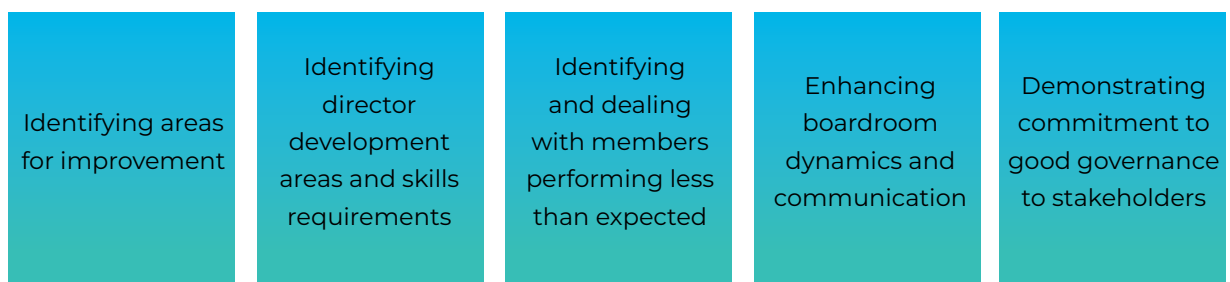
According to the 2022/2023 GNDI Future of Board Governance Survey<sup>2</sup>, over 50% of directors feel that board evaluations are critical for improving board performance and this is one of their top priorities. Additionally, 30% considered upgrading their board evaluation processes as a significant area for improvement over the next 3 to 5 years, and 31% felt that a lack of formal and rigorous board performance evaluations will be less acceptable in 3 to 5 years. The findings from this Survey showed that alongside a skills matrix is the need for regular board evaluations.

### EXHIBIT 3: TOP PRIORITIES FOR IMPROVING BOARD PERFORMANCE (QUESTION 9)



**“Effective evaluations provide a pathway for boards, committees and individual directors to objectively assess their individual and collective strengths and weaknesses and implement plans for continuous improvement.”** GNDI Future of Board Governance Survey

The purpose of a board performance evaluation is to assess the effectiveness of the board in fulfilling its duties and responsibilities. Board performance evaluations provide a number of benefits, including:



<sup>2</sup> [https://gndi.weebly.com/uploads/1/1/4/2/1/14216812/gndi\\_future\\_of\\_board\\_governance\\_survey\\_report\\_2022-2023.pdf](https://gndi.weebly.com/uploads/1/1/4/2/1/14216812/gndi_future_of_board_governance_survey_report_2022-2023.pdf)

Country	Source	Frequency	Method (Internal/External)
Argentina	Corporate Governance Code	Annual	Either
Australia	ASX Corporate Governance Principles and Recommendations	Annual	Both
Austria	Austrian Code for Corporate Governance, 2023	Annually	Silent
Belgium	Belgian Code on Corporate Governance, 2020	Every 3 years	Either
Brazil	IBGC - Code of Best Practices of Corporate Governance	Periodically	Either
Canada	Corporate Governance Guideline, 2018	Regularly	Silent
Denmark	Danish Recommendations on Corporate Governance_2020	Annual	Both
Finland	Finnish Corporate Governance Code, 2020	Annual	Either
France	AFEP-MEDEF Corporate Governance Code of Listed Corporations, 2022	Annual	Both
Germany	German Corporate Governance Code, 2022	Regularly	Silent
Hong Kong	Appendix 14 Corporate Governance Code - Main Board Listing Rules Appendix 15 Corporate Governance Code - GEM Listing Rules	Regularly	Silent
Ireland	In Ireland, companies listed on the principal Irish securities market, Euronext Dublin, are required to comply with both the UK Corporate Governance Code (Corporate Governance Code) and the Irish Corporate Governance Annex.	Annual	Both
India	Companies Act 2013	Annual	Both
Italy	Corporate Governance Code, 2020	Annual	Both
Japan	Japan Corporate Governance Code	Annual	Both
Malaysia	Malaysian Code on Corporate Governance, 2021	Annual	Both
Mauritius	The National Code of Corporate Governance for Mauritius, 2016	Annual	External
Namibia	Namibia Corporate Governance Code	Annual	Either
New Zealand	NXZ listing requirements - require assessment of director independence	Regularly	Both
Netherlands	Dutch Corporate Governance Code	Annual	External
Nigeria	Nigerian Code of Corporate Governance, 2018	Annual	Both
Norway	Norwegian Code of Practice for Corporate Governance	Regularly	Either
Pakistan	Various Codes of Corporate Governance (Listed, Public Sector, Insurance & Non-listed) <sup>3</sup> Prudential Regulations (Banks & DFI's) Regulatory Notification (Self-Regulatory Bodies) Listing Regulations	Annual	Either
Philippines	SEC - Code for Corporate Governance for Publicly Listed Companies	Annual	Both
Portugal	Portuguese Corporate Governance Code	Annual	Silent
Singapore	Code of Corporate Governance	Regularly	Either
South Africa	King IV Report on Corporate Governance for South Africa	Every 2 years	Either
Spain	Good Governance Code for Listed companies	Annual	Both
Sri Lanka	Code of best practice on corporate governance, 2017	Annual	Silent
Switzerland	Swiss Code of Best Practice for Corporate Governance (for listed companies), 2023 Swiss Code of Best Practice for Corporate Governance for SMEs, 2024	Annual	Either
Sweden	Swedish Corporate Governance Code	Annual	Silent
Thailand	Thailand - Corporate Governance Code for listed companies, 2107	Annual	Both
Turkey	6362 Capital Markets Law, The Communique li-17.1 on Corporate Governance	Annual	Both
United Kingdom	UK Governance Code, 2024	Annual	Both
United States	New York Stock Exchange Nasdaq Stock Market	Annual	Either
Vietnam	Vietnam Corporate Governance Code of Best Practices, 2019	Annual	Both

<sup>3</sup> Listed Companies (Code of Corporate Governance) Regulations, 2019; Public Sector Companies (Corporate Governance) Rules, 2013; State-Owned Enterprises (SOEs) Ownership And Management Policy, 2023; Code of Corporate Governance for Insurers 2016; Principles of Corporate Governance for Non-Listed Companies; Corporate Governance Regulatory Framework (Banks/DFIs); Guidelines for Performance Evaluation of the Board of Directors, Chief Executive Officer and Chief Regulatory Officer (for Self-Regulatory Bodies) - S. R. O. 301 (I)/2020.



The above global benchmark shows a common view across countries of the importance of board evaluations. Board evaluations appear to be a standard good corporate governance requirement, irrespective of whether or not the requirement is a voluntary good governance practice recommendation or a mandatory requirement. In some countries the requirement is included in relevant listing requirements and/or legislation, however in the majority of cases the requirement for a board evaluation is found in a code on corporate governance.

The benchmark further revealed that majority jurisdictions stipulate the type of evaluations which should be conducted, and some specifically also require director independence assessments. The majority of jurisdictions who recommend both internal and external evaluations, recommend that an external evaluation is done at least every three years.

The below content is based on the common requirements and practices found during a desktop benchmark conducted as well as specific input from GNDI Members.

# 04

## **Drives: Who Is responsible for the evaluation process?**

The board evaluation process is overseen and lead by the chair of the board and/or the Nominations Committee, with the technical assistance of the company secretary (if applicable) or CEO. The chair plays a significant role in emphasising the importance of the evaluation and encouraging all board members to not only provide honest input but to also take the process seriously by abiding by required timelines and schedules. The chair and/or company secretary should highlight any key areas which should be assessed in the evaluations that may be specific to the board or any specific concerns or input they would like the board evaluation facilitator (i.e. the individual conducting or facilitating the board evaluation) to unpack during the process.

When it comes to the assessment of the chair, this should be led by the lead independent director/deputy chair. Where the board does not have a lead independent member, the board should appoint an independent non-executive member to lead the performance assessment of the chair. Where individual director peer evaluations are conducted, the chair should have one-on-one consultations with each member to go through his/her results and manage any performance issues.

# 05

## **Frequency: How often should a board evaluation be undertaken?**

The most common global practice is for an evaluation to be conducted on an annual basis. However, some countries' regulations or governance codes provide for a periodic or regular evaluation without a specific prescribed frequency. Some jurisdictions in addition also provide for either a formal or informal evaluation but recommending a formal or external evaluation to be conducted every two or three years.

Irrespective of the frequency of the evaluation, the board should ensure that a formal process is undertaken and that during interim periods the findings of the previous evaluation are addressed.



## Methodology: How should a board evaluation be conducted?

There are a number of different methodologies that can be used to conduct board performance evaluations. Some common methods include:

- Self-assessments by directors (conducted internally or via an external independent third party)
- Individual peer assessments by directors
- 360-degree assessments by directors, management, and other stakeholders

The most appropriate methodology will depend on the specific needs of the board taking into account the governance maturity of the board, its current dynamics and challenges, and years in existence.

Most importantly evaluations should be conducted in a fair, objective, and confidential manner.

### Internal vs External Evaluations

The board evaluation irrespective of whether done internally or externally, remains a self assessment of the directors on their personal views on the performance of the board. The decision whether to conduct the evaluation internally or externally will depend on a number of factors, such as specific jurisdictional mandatory requirements and/or recommended practices, budget, current board culture and dynamics, and the maturity of the board.

Responses received should be private and confidential, and results should be handled with requisite sensitivity as needed. Irrespective of which method is elected, the facilitator (i.e. the individual conducting or facilitating the board evaluation) should aim to illicit honest and frank inputs from the board members.

Type	Pros	Cons
<b>Internal</b>	Cost-effective: Cheaper than external	Lack of objectivity: Internal facilitators may be less objective, as they may be hesitant to provide negative feedback to their colleagues and/or share views as provided.
	Time-efficient: Can be conducted more quickly than external evaluations.	Lack of expertise: Internal facilitators may not have the same level of expertise in board evaluations as external facilitators.
	Perception of Confidentiality: Sensitive information and board concerns are kept internal and not shared to a third party.	Potential for bias: Internal evaluators may be biased towards certain members of the board.
	Greater control over the process: The board has greater control over the evaluation process when it is conducted internally. This allows the board to tailor the evaluation to meet its specific needs and timelines.	Perceived lack of credibility: The level of reliance placed on the evaluation is limited because it was done in-house. Thus, in some jurisdictions, it is mandated that the evaluation should be externally facilitated after 2 or 3 years.
	Greater understanding of the board's dynamics: Internal facilitators are likely to have a better understanding of the board's dynamics and culture.	Risk of incomplete scope: This occurs because certain areas might be overlooked in the course of the evaluation either because board members may not have the level of expertise required or might not want to delve into areas of concern.
<b>External</b>	Objectivity: External evaluations are more likely to be objective and free from bias.	Cost: External evaluations are typically more expensive.
	Expertise: External evaluators typically should have expertise in board evaluations.	Time: External evaluations can take longer to conduct, as the external facilitator needs to be onboarded and familiarised with the organisation.
	Fresh perspective: External facilitators can provide a fresh perspective on the board's performance.	Confidentiality: Organisations may have to share sensitive information with third parties, and confidentiality and privacy of such information may cause concern.
	Credibility: External evaluations are often seen as more credible than internal evaluations.	Less understanding of the board's dynamics: External facilitators may not have the same understanding of the board's dynamics and culture as internal facilitators.
	Independence: Since external facilitators are independent of the board, better equipped to handle sensitive inter-group dynamics, thus allowing board members to express honest and frank views.	Perceived Intrusiveness: Some members of the board might consider the external evaluation to be unduly intrusive and consequently may not be forthcoming with giving adequate information to the evaluators.
Anonymity: External evaluations provide board members with anonymity of responses	Reliance on external consultants: Invariably, an external evaluation must be facilitated by an external consultant with all the attendant risks, shortcomings and inconveniences.	

## Qualitative or quantitative

The evaluation can employ quantitative and/or qualitative methods. Quantitative methods aim to obtain specific, numerical and measurable data through surveys or questionnaires. The results are typically aggregated in the report back to the board. Qualitative methods are utilised to reveal trends in thought and opinions of board members, and this can take the form of one-on-one interviews, observation of board meetings and review of applicable documentation.

It is up to the board as to whether the evaluation will be conducted just via questionnaires or interviews or use of both.

**“From the GNDI Members who provide board evaluation services 33% use both questionnaires and interviews as part of their evaluation process”.**

## Rating Scale

The recommended rating scale to use for a board evaluation is a 5-point Likert scale. The recommendation to use a 5-point Likert scale for board evaluations comes from a number of sources, including academic research<sup>4</sup>, professional standards<sup>5</sup> and practical experience<sup>6</sup>.

This scale allows for a more nuanced assessment of performance than a simple 3-point scale, with more options available for expressing their opinions boards can gain a more detailed understanding of their strengths and weaknesses and identify areas where they can improve their performance. It is also easier to use for statistical analysis.

In addition, boards may also want to use open-ended questions to gather more qualitative feedback on their performance. Open-ended questions allow directors to provide more detailed feedback on specific aspects of the board's performance.

For example, the following open-ended questions could be used to gather feedback on the board's performance:

- What are the board's strengths?
- What are the board's weaknesses?
- What are some areas where the board could improve?
- What are some of the board's biggest challenges?
- What are some of the board's biggest achievements?

<sup>4</sup> A study by de Vaus (2002) found that 5-point Likert scales were more reliable than 3-point scales in a survey of over 1,000 respondents.

<sup>5</sup> The American Psychological Association (APA) recommends the use of 5-point Likert scales in its guidelines for test development and evaluation.

<sup>6</sup> A study by Baruch (1999) found that respondents were more likely to complete surveys that used 5-point Likert scales than surveys that used other rating scales.





## 06

### **Content: What should be covered in a board evaluation?**

When considering what should be covered in a board evaluation, the following (inter alia) aspects should be taken into account to ensure fit for purpose evaluations:

- The industry in which the organization operates.
- The applicable laws, regulations or codes that the board should be benchmarked against
- The board's charter and/r any bylaw requirements
- The board's goals and objectives for the evaluation (including any specific concerns/challenges which may want to be assessed)
- Maturity and level of experience of the board (including size and complexity)
- Whether previous board evaluations have been conducted; if affirmative, the level of compliance with the recommendations made then.

Across the globe the following evaluations are most common and are in some jurisdictions specifically required or recommended in terms laws or governance codes:

- Board evaluation
- Board committee evaluations
- Individual peer evaluations
- Chair evaluation
- Company secretary evaluation
- Independent director evaluations (specifically required in some jurisdictions)
- Board committees: This includes the effectiveness and contribution of the board's committees.
- Board processes: This includes the effectiveness of the board's meeting agenda, the quality of board papers, and the board's decision-making processes.
- Board culture: This includes the board's level of trust and respect, its willingness to engage in open and honest debate, and its commitment to continuous improvement.

For individual director reviews, the evaluation should cover among other things the directors' attendance at meetings, their contribution to board discussions, their understanding of the company's business, and their independence.

The assessment should not be a mere tick-box approach, but it should probe thought and application of mind to assess the previous year's performance (or the performance of at least the last four (4) board meetings).

## Results: What should be done with the evaluation report?

The results of the board evaluation should be discussed by the board as a collective and should be used to inform the board's ongoing development and improvement efforts. An action plan stemming from the board evaluation report should be developed to provide a clear plan on what needs to be addressed. This will allow the Board to have a mechanism to track progress and compare whether improvements/findings have been addressed.

The results of director peer review evaluations can be used to inform individual director development areas and should be used by the Nominations Committee when assessing whether to nominate an individual director for re-election. Individual peer evaluation results should be kept confidential and should be treated with appropriate sensitivity. These results should not be shared to the whole board in order to avoid causing a negative and/or disruptive impact on the morale of individual members and overall board dynamics.

The chair plays a key role in delivering the results of individual director evaluations as well as ensuring that the board evaluation report is unpacked and areas for improvement are reflected on and addressed by the board. It is crucial that the outcomes of board evaluations and the identified action items are implemented, as the value of conducting a board evaluation can only be realised if the findings are addressed.

The disclosure requirements relating to board evaluation varies across the various jurisdictions. Some jurisdictions are silent, and some contain specific requirements. The requirements for disclosure include, inter alia, disclosing whether a board evaluation was conducted, summary of the results and key action points, what corrective actions were taken (where applicable), specific director information (like attendance, skills, experience etc.), the methodology used, and in some cases even a note on the independence of facilitator. From a good governance perspective, the quality of disclosure is important and should be consistent, as such it is recommended (especially for listed companies) that disclosure should go beyond just stating whether an evaluation was done and how, but it should encapsulate the learnings/takeaways from the board and what actions the board plans to implement in order to improve its performance.



## Conclusion

In order for an evaluation to add value, it requires:

- Buy in and commitment from board members (Board members need to see this as a valuable exercise).
- Honest and frank ratings and comments from board members in order to provide a true reflection of the board's performance.
- The chair (with the assistance from the company secretary) to drive the process and ensure full participation.
- Board members to have served for a sufficient period of time in order to properly evaluate each other and board.
- The outcomes of the evaluation to be actioned to ensure improvement in processes, documentation, and overall performance.

There is no one size fits all approach but what is certain is that board evaluations play a pivotal role in identifying areas for improvement and helping improve effectiveness and performance of the board if focused and used correctly. The GNDI believes that board evaluations should be conducted for all types of organisations (and not only listed companies as may be the perception in some jurisdictions). The appropriate time should be spent in developing evaluation questionnaires and/or using a third-party service provider that will ensure the right areas are covered for the report to be meaningful.