SINGAPORE INSTITUTE OF DIRECTORS
STATEMENT OF GOOD PRACTICE
BOARD EVALUATIONS

This Statement has been superseded by the Nominating Committee and Board Guide.

Introduction

1. Principle 5 of the Code of Corporate Governance 2005 (‘Code”) recommends that there should be a formal assessment of the effectiveness of the Board of Directors (“Board”) as a whole and the contribution by each director to the effectiveness of the Board. Guideline 5.2 of the Code further recommends that the Nominating Committee should decide how the Board's performance may be evaluated and propose objective performance criteria which should be approved by the Board.

2. Conducting board evaluations are increasingly becoming a norm internationally. With the passing of the Sarbanes-Oxley Act of 2002 in the United States, the New York Stock Exchange (“NYSE’) adopted standards requiring boards of companies listed on the NYSE to conduct and disclose the results of board evaluations. The NYSE also requires that the various board committees, and in particular the audit, nominating and remuneration committees, include in their terms of reference specific provisions on conducting evaluation of their respective performances.

3. Board evaluations are not mandatory in Singapore. However, the provisions as contained in the Code recommending the assessment and evaluation of the Board and its members have been around since the time the Code came into force.

4. There are clearly tremendous benefits to conducting regular board evaluations. However, the members of the Board should be aware of the risks that may arise if the board evaluation process is not carefully designed.

5. This Statement of Good Practice provides guidance on why board evaluations should be undertaken, the benefits and risks of board evaluations, and how the evaluation should be undertaken. Note that this Statement of Good Practice assumes that the board itself will be involved in the setting up of the actual evaluation process. No “bottoms up” approach (i.e. of staff or management evaluating the board) is proposed at this time.

What Are Effective Board Evaluations?

1. Board evaluations are processes of, whether formal or informal, identifying the effectiveness of a board in relation to how board members work with each other, how the board works with management, how the board as a whole has coordinated its efforts and marshalled the company's resources to increase or improve upon the performance of the company.

2. To be clear, a board should not be assessed only upon whether the company has become more profitable; the board can also be assessed on how it has dealt with a crisis for example.

Why Undertake Board Evaluations?

1. One purpose of board evaluations is to allow the board as a whole and the directors individually to identify any possible gaps that may exist in the work undertaken by the Board and to identify ways of improving the process.

2. Another important reason for undertaking board evaluations is to assess how the board and the individual directors work together with each other and with other stakeholders of the company. To this extent, board evaluations aid in fostering communication amongst the directors and between the board and management on various matters, including corporate strategy, board composition and board processes.

3. A further important purpose of evaluations is to identify the 'best' fit in board composition with the ultimate aim of increasing shareholder value.

Benefits And Risks Of Board Evaluations

1. Benefits
    a. Improves director effectiveness by identifying gaps, if any, and correcting them.
    b. Improves Board collegiality through the exchange of views on how the board as a whole is performing.
    c. Helps the Board to focus on how it operates and identifies areas that can be improved.
    d. Helps the Board to focus on long-term strategies.
    e. Provides a written record to show that the Board is diligent in monitoring its own actions.

2. Risks
    a. Written records of the Board evaluation process may be discoverable in litigation, with the possibility that negative conclusions not acted upon possibly being used adversely during the litigation.
    b. Responses to written questionnaires for evaluation may not reflect the overall perspective of the Board.

Designing The Board Evaluation

1. There is no standardised design for board evaluations and each board should be careful about adopting an evaluation process prepared by another company for its own use.

2. Board evaluation materials must be designed as appropriate to each board. Boards should be mindful of the issues that, in the opinion of the Directors, such an evaluation process should address, the information that they want to gather, as well as the retention policy of the feedback that is received from the board members.

3. One of the most important aspects of the evaluation process is to elicit a frank evaluation of the board's operations and performance from the directors, both individually and as a group.

4. In designing the board evaluation process, the use of subjective questions should be avoided wherever possible.

5. Broadly, any board evaluation design should at least take into consideration the following:
   a. Board culture
   b. Board composition
   c. Board procedures and processes
   d. Information flow and accessibility
   e. Leadership on the board and how this is transmitted
   f. Management interface
   g. Shareholder interface and communications

6. Additionally, the board evaluation design should also take into account the following two major areas, although external market conditions could also play a part:

   a. Company-related factors, including the size of the company, the nature of its business, the complexity of the operations, profitability, the structure and responsibilities assigned to the board, and the risks and challenges of the business.

   b. Director-related factors, including qualifications and experience of the directors, their availability (in terms of being able to attend meetings or at least provide feedback as may be required), involvement and actual participation at meetings, and additional responsibilities assigned to the relevant directors, including whether he is a chair or member of a sub-committee of the Board.

7. The Nominating Committee, whether on its own or with the assistance of external consultants, should be tasked with the design and formatting of the evaluation process. The Nominating Committee in designing or working with external parties to design the evaluation process, must ask: 'What is the purpose of the evaluation?' or 'What is it that we want to achieve?'.

8. The Nominating Committee must further identify, in the course of preparing the evaluation process, what factors constitute success to the company. In doing so, they should also identify the external factors that could have an impact on these success factors, the relevant information that is necessary to carry out the evaluation and the appropriate tools needed to carry out the evaluation.

9. In this regard, the Code suggest that relevant performance criteria that may be used could include the company's share price performance over a five-year period vis-à-vis the Singapore Straits Times Index and a benchmark index of its industry peers return on assets, return on equity, return on investment and economic value added over a longer-term period. As far as the relevant criteria in assessing the individual directors are concerned, the key factors include whether the individual director continues to contribute effectively and demonstrate commitment to the role (including commitment of time for board and committee meetings, and any other duties).

10. The Nominating Committee, working in conjunction with the Board, should also be tasked with determining who should be given the responsibility of conducting the evaluation, i.e. whether it should be done internally by another committee, by the Nominating Committee, by self-evaluation, or by an external consultant, as well as whether the process is intended to be conducted through a written questionnaire or via oral interview.

11. The Nominating Committee should determine how the company's record retention policies and practices should be applied to the data gathered in the course of the evaluation process and it should ensure that such record retention procedures are strictly adhered to.

Conducting And Gathering Information From The Board Evaluation

1. There is no definitive method for conducting a board evaluation. This can be done through a written questionnaire or through oral discussions, with someone recording the responses provided. The written questionnaire may be the preferred approach as it will ensure consistency from year to year, and will generally be easier for board members to respond to, if properly structured.

2. The board and director evaluation should be conducted at least once a year.

3. On the basis that a written questionnaire is to be provided, each director should be asked to respond to the same standardised questionnaire relating to the performance of the Board. The preferred and perhaps easiest approach is to have each director also be provided with a questionnaire pertaining to his performance to respond to. Some companies may prefer peer critiques as a form of assessment as well. Whilst this is to be welcomed, it is not something that companies would typically prefer given the deference that each director has to the other and the wish not to offend.

4. The information gathered from the questionnaires must be objectively analysed and feedback collated. There are queries as to whether this should be conducted anonymously or by say the remuneration committee. There is no one answer fits all, and the better approach is to always have this conducted internally in the first instance if the review is to be transparent in any event.

5. Based on the feedback gathered, changes should be recommended to improve the workings of the board. It must be recognised that not all suggested changes need be or can be implemented immediately. There may be good reasons to introduce changes in a gradual manner and in the order of priority of need.

6. The board as a whole should be involved in the decision-making process as regards the relevant next steps.

7. The Board, in conjunction with the NC Chairman, should take appropriate steps to counsel or, at worst, replace non-performing or errant directors.

8. The Code recommends that the process used to assess the effectiveness of the board as a whole and the contribution of each individual director to the effectiveness of the board, should be disclosed in the company's annual report. It is not necessary in all cases to disclose the detailed findings of the performance evaluation to shareholders or in the annual report. The degree of disclosure should be left to each company to decide on.

Conclusion

This Statement of Good Practice has provided only broad recommendations as regards how a board evaluation can be undertaken. It is imperative to note that there is no one approach fits all and hence no sample appraisal form has been provided.