

POLICIES FOR ANNUAL EVALUATION OF BOARD

Section 134 (3) (p) of the Companies Act, 2013 directs that a Listed Company shall have to attach with its Report of the Board of Directors' (which is to be attached with the Annual Report), 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.

Why board evaluation is necessary?

1. Provides the board with a chance to reflect on and assess its areas of strength and weakness.
2. May provide the board with an invaluable yardstick by which it can prioritize its activities for the future.
3. Can serve an educational and consensus-building function -- by clarifying and defining the overall standards of performance for the board.
4. A formal appraisal encourages all directors to reflect on what the board has accomplished, as well as on what it should be doing and how it works. Such a review can optimally result in all directors contributing to setting goals of the board. The commitment of all directors to the board's priorities and to improving board effectiveness makes those goals all the more likely to be completed.
5. Being a responsible board member is hard work and is often a thankless job. An evaluation which points up strengths as well as weaknesses can give a board a sense of its own competence and accomplishment as a group. This is a good foundation on which to build positive change.

Who should evaluate the board of directors?

Alternatives:

1. Board's self-evaluation: All board members participate. An internal evaluation can be a good process. As a board, you have an opportunity to know your own strengths and weaknesses better than someone who has only limited contact with the board.
2. A committee of the board does the evaluation.
3. A non-board committee does the evaluation.
4. The evaluation is done by an outside consultant. An outside consultant may be particularly useful if a board has never evaluated its performance before. The consultant can provide some objective criteria, offer a perspective on the co-op board standards, and can help the board set up criteria on which to base future evaluations. An outside consultant may be useful where there are emotionally-charged issues, or where the board's internal process has not been the best.

What should be done with the evaluation?

A compilation of all directors' responses to questions (or outside consultants' responses) should be prepared and copies distributed to all board members. But this is not the end. One or two board members could review the data and prepare an initial analysis for the board. But more importantly, the entire board should review the data and then discuss priorities for future boardwork -- setting goals for the board for next year or directing a committee to follow-up on low-scoring areas.

How often should the board be evaluated?

The board may choose to evaluate itself annually or have an outside consultant conduct the evaluation annually. Rather than annually, every other year may be viewed as adequate.

A list of questions which would be of use for the assessment of the whole board and its chairman which may be on the following lines:

1. How well has the board performed against any objective that was set?
2. What has been the contribution of the board to the development and testing of strategy?
3. What has been the contribution of the board to ensuring robust and effective risk management?
4. Is the composition of the board and its committees appropriate?
5. Do these have the right balance of knowledge and skills to maximize performance?
6. Are relationships inside and outside the board working effectively?
7. How has the board responded to any problems or crises that arose?
8. Could / should these have been foreseen?
9. Are the matters specifically reserved for the board the right ones?
10. How well does the board communicate with the management team, employees and others?
11. How effective is its use of the Annual General Meeting and the annual report?
12. Is the board as a whole up to date with the latest developments in the regulatory environment and the market?
13. How effective are the board's committees (for example, in their role, their composition and their interaction with the board)?
14. Is the chairman demonstrating effective leadership of the board?
15. Are relationships and communications with shareholders well managed?
16. Are relationships and communications within the board constructive?
17. Does the process for setting the agenda for board meetings work well? Are board members able to raise issues and concerns?
18. Is the company secretary being used effectively and to maximum value?

In line with the Board's evaluation, there should also be an evaluation for the Non-Executive Directors of the Company. A list of questions which would be of use for the assessment of each of the non executive director, may be as follows:

1. How well prepared and well informed the Non Executive directors for board meetings?
2. Is the attendance of Non Executive directors at meetings satisfactory?
3. Do the Non Executive directors show willingness to spend time and effort learning about the company and its business?
4. What has been the quality and value of non executive director's contributions at board meetings?
5. What has been their contribution to the development of
(i) Strategy and (ii) risk management
6. How successfully the Non Executive directors brought their knowledge and experience to bear in the consideration of strategy?
7. How effectively the Non Executive director probed to test assumptions?
8. Where necessary, how resolute are they in holding to their views and resisting pressure from others?
9. How effectively have they followed up matters about which they have expressed concern?

10. How good are their relationship with other board members, the company secretary and senior management?
11. How actively and successfully do they refresh their knowledge and skill?
12. Are they up-to-date with the latest developments in areas such as the corporate governance framework and financial reporting and in the industry and market conditions?
13. How well do they communicate with other board members, senior management and others? (e.g. shareholders)
14. Can they present their views convincingly, yet diplomatically?
15. Do they listen to the views of others?

This could be done through a Peer Review process i.e all Non-Executive Directors would opine about other Non-Executive Directors.

At the end of the evaluation process, the chairman and the Senior Independent Director should submit a report to the board members on the results of the evaluation process.

Then the board could report the same to the shareholders by way of disclosure in the annual report.