

An Overview of Board Performance Evaluation: At Dusk Threaten

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Abstract

To improve overall governance, everyday practices and the dynamics in the boardroom, it is necessary to invest in an assessment process of the board of directors deeper than compliance requirements. Evaluation processes have become common in the boardroom; it appears that 94% of S&P 500 companies regularly conduct an evaluation as found in the PwC's 2011 Annual Corporate Directors Study. According to PwC's 2013 survey in Russia, 65% of boards (among listed companies - over 70% of boards) carry out their performance evaluation annually, while 7% do this once every two to three years, and another 7% do this even less frequently. Yet, 22% of boards have never conducted board performance evaluations, versus 6% of UK companies and 2% of S&P 500 companies. Moreover, 43% of companies disclose the results of the board evaluation in their annual report and 34% disclose the results at their general meeting of shareholders. According to the *BoardSource Nonprofit Governance Index 2010*, boards that have conducted a self-assessment are rated more effective by their chief executives than those that have not (66 percent vs 42 percent).

The global economy is going through a difficult period and good governance requires that the performance of the board is evaluated at least once a year. The evaluation process is a constructive mechanism for improving board effectiveness, maximizing strengths and tackling weaknesses. At times of such challenge, it is even more critical than normal, that boards of directors can plan effectively and take tough and strategic decisions are required proper board procedures in place, with all directors fully understanding their role and having the special skills that directors need.

Independent directors are now confronted with complex oversight, accountability, corporate performance and they might also have to endure greater personal risks and liability. Investors, regulators, stakeholders and the society at large are increasingly demanding that boards demonstrate leadership, control and deliver on their responsibilities and their company's results so the expectation of the board is to go beyond compliance. Besides, large institutional investors are becoming far more demanding in the growing belief that good governance enhances corporate outcomes.

Performance Evaluation of the Board

'Board self-evaluation is simply an organized process by which the board regularly re-examines its collective and individual performance, and then reaffirms its commitment by identifying plans for improvement', stated by a well known director's trainer "Jannice Moore".

Board evaluation tends to break down into two basic areas; people factors and process factors. People factors tend to be by far the more important of the two in achieving an effective board—for example, how do the directors work as a team; what are their interpersonal skills; is there a dominant or bullying chairman or CEO; how effective is the non-executive independent director; is the chairman an effective leader; do all directors contribute; what is the level of commitment; is the board objective in acting on behalf of the company; is it robust in taking and sticking to difficult decisions; are decisions reached by the whole board; do decisions take account of shareholders' views; are there any conflicts of interest; is the composition of the board being refreshed.

The following are some of the more specific issues and questions that should be considered in a performance evaluation:

- Has the board set itself clear performance objectives and how well has it performed against them?
- What has been the whole board's contribution to the testing and development of strategy?
- Is the composition of the board and its committees appropriate with the right mix of knowledge and skills sufficient to maximize performance in the light of future strategy?
- Are inside and outside board relationships, working effectively?
- What has been the board's contribution to ensuring robust and effective risk management?
- How has the board responded to any problems or crises that have emerged and could or should they have been foreseen?
- Are the matters reserved for the board the right ones?
- What is the relationship between the board and its main committees and between the committees themselves?

- How well does the board communicate with the management team, company employees and others?
- How effectively does it use mechanisms such as the AGM, the business review and the annual report?
- Is the board as a whole up to date with latest developments in the regulatory environment and the market?

What is Evaluation/Assessment?

About the word “Evaluation”, Australian educational philosophers, Gitlin and Smyth comment, from its Latin origin meaning ‘to strengthen’ or to empower, the term evaluation has taken a numerical turn - it is now largely about the measurement of things and in the process it can easily slip into becoming an end rather than a means.

- Behavioral psychologists and organizational learning experts agree that people and organizations cannot learn without feedback. No matter how good a board is, it’s bound to get better if it’s reviewed intelligently (Sonnenfeld, 2002)
- The assessment/evaluation, in as objective a manner as possible, of the degree to which a service or its component parts fulfills stated goals (St Leger and Wordsworth-Bell)
- “Sacrifices some precision in measurement, hopefully to increase the usefulness of the findings to persons in and around the program” (Stake, 1973)
- Ryan (1998) stated that such approaches improve decision-making, are more credible, and consistent with the evaluation’s overall goal of being democratic and inclusive.

What Techniques Could Be Used?

Depending on the degree of formality, the objectives of the evaluation, and the resources available, boards may choose between a range of qualitative and quantitative techniques. Quantitative data are in the form of numbers. They can be used to answer questions of how much or how many. Qualitative data are not in the form of numbers and will be required for any other type of research question. Put simply, a question of “how much” should employ quantitative research methods, whereas questions of “what”, “how”, “why”, “when” and “where” should employ qualitative methods.

Assessment Frequency

- “We can’t imagine governing effectively without assessing our performance annually”. (Victoria Goetz, Former Board Chair, HealthPoint, Renton, WA)
- According to the *BoardSource Nonprofit Governance Index 2012*, an annual performance assessment is central to board/chief executive’s job satisfaction.
- The Financial Reporting Council (FRC) announced the new UK Corporate Governance Code (Code) back in June 2010 and summarize that Board evaluations of FTSE 350 companies should be externally facilitated at least every 3 years, and any other connections between external consultants and the company disclosed.
- Code of corporate governance Pakistan 2012 stated that, “... a mechanism is put in place for an annual evaluation of the board’s own performance.”

Who should Evaluate the Board of Directors?

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 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)

CODE OF CORPORATE GOVERNANCE IN PAKISTAN

As corporate leaders in improving and enhancing the effectiveness and performance of individual director and boards, it is the responsibility of regulators and more specifically, Pakistan Institute of Corporate Governance (PICG) to strengthen detailed knowledge of best practice standards, codes of conduct and the techniques and processes associated with high performing boards. Under the unitary leadership structure, in general terms, the governing body is responsible for setting the organization’s strategy and monitoring its implementation, and

ensuring compliance with internal and external laws, as well as regulations and policies, whereas executive management is responsible for implementing the board's strategy and policies and the day-to-day management of the company. The questions raised through a board performance evaluation will aim to highlight strengths and weaknesses. The performance of board sub-committees and individual directors may also be assessed.

Code of Corporate Governance 2002

According to Code of Corporate Governance, 2002:

"A board of directors of a listed company shall not later than two years from the coming into force of this provision, put in place a mechanism for undertaking annually an evaluation of its own performance, its committees and its individual members to enhance board performance."

Code of Corporate Governance 2012

Section V(e) - Within two years of coming into force of this Code, a mechanism is put in place for an annual evaluation of the board's own performance.

Human Resource and Remuneration Committee shall only 'recommend' to the board of directors the human resource management policies; succession planning of the CEO; the selection, evaluation, compensation (including retirement benefits) of the COO, the CFO, company secretary and head of internal audit.

Corporate Governance Rules 2013 (SRO 180 (I) /13)

Section 8 (1) The performance evaluation of the members of the Board, including the chairman and the chief executive shall be undertaken for which the Board shall establish a process, based on specified criteria, and the chairman of the Board shall take ownership of such an evaluation. The committees shall also carry out their evaluation on an annual basis.

Section 8 (2) The Board shall monitor and assess the performance of senior management on a periodic basis, at least once a year, and holds them accountable for accomplishing objectives, goals and key performance indicators set for this purpose.

Section 12 (c) Human resources committee, to deal with all employee related matters, including recruitment, training, remuneration, performance evaluation, succession planning, and measures for effective utilization of the employees of the Public Sector Company.

DEVELOPED COUNTRIES PRACTICE

Australia- Code and Recommendation (2014)

The board or the nomination committee should regularly assess the independence of each non-executive director. That assessment should be made at least annually at or around the time that the board or the nomination committee considers candidates for election to the board. In the case of a change in a non-executive director's interests, positions, associations or relationships, the assessment should be made as soon as practicable after the board or the nomination committee becomes aware of the change.

Principle 1: A listed entity should establish and disclose the respective roles and responsibilities of its board and management and how their performance is monitored and evaluated.

Canada – Corporate Governance Guidelines (2013)

The Board of federally-regulated financial institutions (FRFI) should regularly conduct a self-assessment of the effectiveness of Board and Board Committee practices, occasionally with the assistance of independent external advisors. The scope and frequency of such external input should be established by the Board.

Denmark – Code of Corporate Governance (2013)

3.5. The evaluation process is to form the basis for continuous improvements in board work and is to ensure that the board of directors continues to have the right composition and regularly introduces new talent. Involving external assistance in the evaluation process may be considered periodically.

3.5.1. The board of directors establishes an evaluation procedure where contributions and the results of the board of directors and the individual members, as well as collaboration with the executive board are annually evaluated. Significant changes deriving from the evaluation should be included in the management commentary or on the company's website.

England – Code of Corporate Governance (2012)

B.6: Evaluation - Main Principle

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 recognizing 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).

France – Code of Corporate Governance (2011)

Section 3 - AFG (Regulator) recommends that the board conduct a formal annual assessment of its own performance either by self rating or by external rating. The board must examine its membership, organization and functioning, including issues such as the relevance of agenda items, time spent per item, quality of the documents provided, efficiency of committees. It informs shareholders of any measures taken in response to its findings.

AFG recommend that, in its report, the chairperson of the board informs shareholders of the number of board meetings, directors' attendance records, board organization and operation, any training received, and, in addition to the detailed curriculum vitae of current board members and those submitted for shareholder approval, the list of their responsibilities and directorships and any ties they may have with the company they will represent or other professional activities.

Hungary – Corporate Governance recommendation (2014)

2.7.2 - The evaluation encompasses an assessment of the Board and of each Board member personally. This should involve an assessment of the competence of each member (and of the Board committees), and an assessment of how well the Managing Body, and Supervisory Board have fulfilled their tasks.

USA – BRT Corporate Governance Recommendation (2012)

The board should have an effective mechanism for evaluating performance on a continuing basis. Meaningful board evaluation requires an assessment of the effectiveness of the full board, the operations of board committees and the contributions of individual directors.

There are a variety of ways to conduct board and committee evaluations. These include written questionnaires, group discussions led by a designated director, employee or outside facilitator (often with the aid of written questions) and individual interviews. Each board, with the assistance of the corporate governance committee, should determine what method or combination of methods will result in a meaningful assessment of the functioning of the board and its committees. Boards and committees should consider periodically varying the methods they use to keep the evaluation process fresh.

DEVELOPING COUNTRIES PRACTICE

Bangladesh – Code of Corporate Governance (2004)

Section 5. (F) - Board Self-Assessment

A final area of effective governance involves the board's assessment of itself as a body of individuals and as a permanent entity. Three areas constitute the core of any assessment that the board conducts on itself: continuously, renewal, and evaluation.

1. Continuity

Of great value to management is that the board and its individual directors possess an institutional perspective. In cases of management turnover, this perspective of the board is unique. Even when there has been continuity at the executive level, the board perspective adds greatly given its collective experience. The board must therefore be responsible for maintaining this continuity by ensuring that even with natural attrition, the board's "institutional memory" is preserved. The design of board terms and succession policies, as well as a corporate binder, are the mechanisms used to ensure continuity.

2. Renewal

Having stated the need for continuity, so too is there a need for an infusion of new directors who bring fresh perspectives, talents, and expertise. Working with management, board members can fundamentally shape effective governance by identifying new directors who could enhance the board operation. Ideally, board composition is a balance of the old and new.

3. Evaluation

As discussed earlier, given the contradictory frames of reference of boards and management, by definition board performance is vulnerable to being undermined by a set of complex dynamics. An effective board recognizes its own weaknesses and has in place mechanisms for self-evaluation. Board performance can be assessed under three categories: the role, the working style, and the directors themselves. Though still an infrequent part of board processes, self-evaluation is being embraced by increasing numbers of entities.

Bahrain –Code of Corporate Governance (2010)

Section 1.8 –The Board should evaluate at least annually the board shall conduct an evaluation of its performance and the performance of each committee and each individual director. The evaluation process shall include:

- Assessing how the board operates, especially in light of Principle 1 of this Code;
- Evaluating the performance of each committee in light of its specific purposes and responsibilities, which shall include a review of the self-evaluations undertaken by each committee;
- Reviewing each director’s work, his attendance at board and committee meetings, and his constructive involvement in discussions and decision making; and
- Reviewing the board’s current composition against its desired composition with a view toward maintaining an appropriate balance of skills and experience and a view toward planned and progressive refreshing of the board.

China – Code of Corporate Governance (2004)

Chapter 5 (1) - 69. A listed company shall establish fair and transparent standards and procedures for the assessment of the performance of directors, supervisors and management personnel.

70. The evaluation of the directors and management personnel shall be conducted by the board of directors or by the remuneration and appraisal committee of the board of directors. The evaluation of the performance of independent directors and supervisors shall be conducted through a combination of self-review and peer review.

71. The board of directors shall propose a scheme for the amount and method of compensation for directors to the shareholders' meeting for approval. When the board of directors or the remuneration and appraisal committee reviews the performance of or discusses the compensation for a certain director, such director shall withdraw.

72. The board of directors and the supervisory board shall report to the shareholder meetings the performance of the directors and the supervisors, the results of the assessment of their work and their compensation, and shall disclose such information.

India – Code of Corporate Governance (2009)

Section II (D) - 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 state in the Annual Report how performance evaluation of the Board, its committees and its individual directors has been conducted.

Indonesia – Code of Corporate Governance (2006)

3.1. Structure, and work mechanism of the Board of Commissioners covering:

- a. The names of the members of the Board of Commissioners, including their qualifications, whether the member serves as an Independent Commissioner or Non Independent Commissioner;
- b. Number of meetings held by the Board of Commissioners, and the individual attendance of each member of the Board of Commissioners in the meetings;
- c. Mechanism and criteria used for self-assessment regarding the performance of each member of the Board of Commissioners;
- d. Elaboration on committees supporting the Board of Commissioners including:

(i) Names of members of the respective committees; (ii) description regarding the function and work mechanism of the respective committees; (iii) number of meetings held by the respective committees and individual attendance of each member; and (iv) mechanism and criteria used for evaluating performance of the committee.

Malaysia - Code of Corporate Governance (2012)

Recommendation 2.2 - The nominating Committee should develop, maintain and review the criteria to be used in the recruitment process and annual assessment of directors.

The board charter sets out the board’s strategic intent and outlines the board’s roles and responsibilities. The board charter is a source reference and primary induction literature, providing insights to prospective board members and senior management. It will also assist the board in the assessment of its own performance and that of its individual directors.

The nominating Committee is charged with the responsibility of overseeing the selection and assessment of directors.

Therefore, it is important for the board to undertake an annual assessment of the independence of its independent directors. When assessing independence, the board should focus beyond the independent director’s background, economic and family relationships and consider whether the independent director can continue to bring independent and objective judgment to board deliberations. The nominating Committee should develop the criteria to assess independence. The board should apply these criteria upon admission, annually and when any new interest or relationship development.

Singapore – Code of Corporate Governance (2012)

5. There should be a formal annual assessment of the effectiveness of the Board as a whole and its board committees and the contribution of each director to the effectiveness of the Board.

5.1. Every Board should implement a process to be carried out by the nomination committee for assessing

the effectiveness of the Board as a whole and its board committees and for assessing the contribution by the Chairman and each individual director to the effectiveness of the Board. The Board should state in the company's Annual Report how the assessment of the Board, its board committees and each director has been conducted. 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. This assessment process should be disclosed in the company's Annual Report

South Africa – King’s Report III (2009)

2.19.4. The board should make full disclosure regarding individual directors to enable shareholders to make their own assessment of directors.

2.22.1. The board should determine its own role, functions, duties and performance criteria as well as that for directors on the board and board committees to serve as a benchmark for the performance appraisal.

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

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

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

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

Sri Lanka – Code of Corporate Governance (2008)

Principle A.9 Boards should periodically appraise their own performance in order to ensure that Board responsibilities are satisfactorily discharged.

A.9.1 The Board should annually appraise itself on its performance in the discharge of its key responsibilities as set out in A.1.2. Schedule B contains a sample “Board Performance Evaluation Checklist” that may be used for this purpose.

A.9.2 The Board should also undertake an annual self-evaluation of its own performance and that of its Committees.

A.9.3 The Board should state how such performance evaluations have been conducted, in the Annual Report.

BOARD EVALUATION CASES

Aberdeen Asset Management PLC

A formal process has been established, led by the chairman, for the annual evaluation of the performance of the Board, its appointed committees and each director, to ensure that they continue to act effectively and efficiently and to fulfill their respective duties, and to identify any training requirements.

In contrast to the previous two Board evaluation exercises, which were carried out by an external consultant, this year's review was undertaken internally with the Chairman having received the advice of an external consultant, MWM consulting, who did not provide the Group with any other services. The Chairman undertook interviews with each member of the Board and this was followed up with discussions at Board and committee meetings.

The non-executive directors also met without the Chairman present to discuss the results of the evaluation of the Chairman's performance, having taken into consideration the views of the executive directors, and the results of this meeting were subsequently discussed between the Senior Independent Director and the Chairman. Additionally, the Chairman and the non-executive directors held a meeting without the executive directors present at which the executive directors' performance was discussed.

Aviva Group

The effectiveness of the Board is vital to the success of the Group and the Company undertakes a rigorous evaluation each year in order to assess how well the Board, its Committees, the directors and the chairman are performing. The aim is to improve the effectiveness of the Board and its Committees and the Group's performance. The process for 2011 was led by the chairman designate and supported by the group company secretary. The review was carried out by Boardroom Review, an independent consultancy with no other connection with the Company and focused on the Board's role and its approach to its work, the way in which the Board works together and the way in which the Board uses its time. Boardroom Review prepared a report based on interviews with the directors and the overall results of the evaluation will be incorporated into the Board's processes and activities for 2012.

The performance of the chairman was reviewed by the executive and non-executive directors. The chairman's evaluation was managed by the senior independent director who provided feedback to the chairman. As part of the chairman's evaluation, the non-executive directors met separately under the chairmanship of the senior independent director.

The Board evaluation process assessed the executive directors in their capacities as directors of the Company. They were evaluated in respect of their executive duties through a separate process whereby the chairman and the non-executive directors assessed the group chief executive and the group chief executive

assessed the other executive directors.

The directors have concluded that the Board and its Committees operate effectively and agreed that the actions identified for improvement in previous reviews had been implemented. Additionally, the chairman has concluded that each director contributes effectively and demonstrates full commitment to his/her duties.

Babcock Group International

The Board commissions an external independent review of its effectiveness and that of its committees and members at least every other year, with an internally led review in the alternate years. The review for the financial year 2011/12 was facilitated externally by Professor Stuart Timperley, a former professor at the London Business School with considerable experience of working on and with Boards and as an advisor on growth, transition and capability issues. Professor Timperley has carried out such external reviews on two earlier occasions and has on occasion provided mentoring to a small number of senior executives, but otherwise provides no other services to the Group. He was able to focus his attention and base his questions from a position of having a good understanding of the Company, its challenges and needs and was able to see things in the context of the Company's development and of his earlier reviews.

He conducted a series of one-on-one confidential interviews with Board members, the Company Secretary and selected members of the senior management team. He reported back on his findings to the Chairman and submitted a report to, and made a presentation at, a full Board meeting, at which his observations were discussed.

Noting that, since his last review, there had been a continuation of Babcock's growth, significant acquisition activity, a rebalancing of the portfolio, substantial contract wins and a demonstrable track record in maintaining a stable base whilst undergoing considerable change, he looked at the way in which the Board had identified and addressed the range of issues in this period and how it needed to handle its strategic and governance responsibilities going forward.

Barclays Bank

An annual evaluation of Board and Committee effectiveness is conducted, as recommended by the Code. The previous evaluation was independently facilitated by EgonZehnderInternational and comprised a questionnaire, supplemented by individual interviews and peer reviews. The following actions were set for next year:

- Provision of additional training on risk issues for Non-executive Directors, including specific awareness of risk management and measurement methodologies for Board Risk Committee members; and
- Continued work on Board meeting agenda management to ensure there is time for rigorous debate and exchange of ideas.

Training on risk issues was provided and feedback sought from the participants. The time allocated to Board meetings has been increased to allow for extended debate and discussion. The Board Corporate Governance and Nominations Committee monitored the progress of the action plan and are satisfied with the steps taken to tackle the issues highlighted by the evaluation.

This year board evaluation was again independently facilitated by EgonZehnder International. The evaluation took the form of detailed questionnaires completed by each Director, individual interviews and peer evaluation of fellow Directors. The results of the evaluation were presented to the Board and continued to demonstrate the improving trend since the current process of evaluation was adopted in 2004. The Board concluded that the Board and the principal Board Committees continue to operate effectively. Minor enhancements were recommended year-round:

- The form and content of Board papers and presentations; and
- Refinement to the Board calendar of business, particularly in respect of the timing and content of presentations on stakeholder management.

The Board Corporate Governance and Nominations Committee will recommend an action plan to the Board to deliver these improvements. The Group Chairman will hold private meetings with each Director to discuss the results and to agree areas for development relating to their own individual performance. Feedback on the Group Chairman's performance was provided to the Senior Independent Director, who discussed the results privately with the other Non-executive Directors and the Group Chief Executive before meeting with the Group Chairman.

GlaxoSmithKline

The Board carries out an evaluation of its performance and the performance of its Committees every year, which is facilitated externally every third year. The progress of the Board against the outcomes of the 2012 evaluation, which was internally facilitated by the previous SID, Sir Robert Wilson. The action points arising from the 2013 evaluation of the Board facilitated by the current SID, Sir Deryck Maughan.

The feedback from the Board evaluation is summarized below:

The Board is viewed by all Board members as effective. The pharmaceutical industry is undergoing fundamental change and the Board has worked hard to understand the opportunities and risks this poses to our strategy, and is supportive of the direction articulated by the management team. Debates are open and robust and everyone is encouraged to contribute. Corporate responsibility, ethics and compliance are taken seriously, and there is a good balance between the core values of the company and the interests of shareholders.

The openness of Sir Andrew and the management team to Board input is viewed by the Board members as exemplary. The ability for Directors to attend management meetings and visit sites enhances the Board's competence. The Board is well balanced in terms of diversity of experiences, however, the desirability of adding an experienced Director from the UK listed environment is acknowledged. The Board Committees have strong and engaged leaders, significant workloads to discharge, and play an important role in the company's governance.

The Non-Executive Directors, led by Sir Deryck, met separately, without Sir Christopher is being present, to discuss his performance. They considered his leadership, performance and overall contribution to be of a high standard. The Chairmen of each of the Board Committees undertook separate evaluations of their Committees and the outcome of each evaluation was reported and discussed by the respective Committee and the Board. In addition, Sir Christopher met with all the Non-Executive Directors independently of the Executive Directors

HSBC Bank

From November 2007, ICSA Corporate Services Limited commissioned to undertake an evaluation of the effectiveness of the Board. This is to investigate the performance of the Board as a whole and, in that context, the main Board committees and individual Directors. The evaluation examined whether eight key areas met the Board's needs and expectations: Board responsibilities; oversight; Board meetings; information received; support of the Board; Board composition; working together; and outcome and achievements.

The report on the evaluation has been reviewed by the Board and has been used by the Non-executive Directors, led by the senior independent Non-executive Director, in their evaluation of the performance of the Group Chairman. The review concluded that the Board and its committees were functioning effectively. It is the intention of the Board of HSBC Holdings to continue to review its performance and that of its Directors annually.

London Stock Exchange (LSE)

The Board carried out an internal review of its own effectiveness and that of its committees and directors. The Board has carried out effectiveness reviews since 2005 and has acted on the results of each review. The evaluation process was conducted by the Group Company Secretary using a detailed questionnaire. The review also included a separate assessment of the Chairman's performance with feedback provided to the Chairman. The 2013-14's results of the review were used to highlight areas of strength and weakness, assist in consideration of the future development of the Board, its Committees and its individual directors and further improve their performance.

Further to the discussions arising out of the 2013 review, the Board identified that the key area for Board development was ensuring that it had the appropriate skills to govern a more diversified Group which included a greater number of post trade assets. The Board recruited members with experience in risk and clearing (Mr Aigrain, Mr Lewis and Mr O'Connor) together with information technology (Ms Coutu and Ms Shields). The Board also constituted separate Audit and Risk Committees (previously combined) to reflect an even greater focus on risk. The Board has also received regular updates and training in relation to CCP risks. Given these substantial changes during the year, the 2014 board effectiveness review concluded that the Board, its Committees and its individual directors were working effectively and did not identify any significant issues. The Board will continue to evaluate its effectiveness annually and address any actions.

The Royal Bank of Scotland

The Board has undertaken a formal and rigorous annual evaluation of its own performance and that of its committees and individual directors. The performance evaluation of the operation and effectiveness of the Board, the Remuneration Committee and the Nominations Committee was undertaken in the autumn of the year. This was conducted internally using a detailed questionnaire and individual meetings with each director. Amongst the areas reviewed were the role of the Board, Board composition, Board meetings and processes, Board performance and reporting, external relationships and Board Committees. A separate performance evaluation of the Audit Committee was also undertaken internally using a detailed questionnaire and meetings with Audit Committee members and attendees.

The report of the Board evaluation, which was designed to assist the Board in further improving its performance, was considered and discussed by the Board as a whole and a separate report on the outcomes of the

evaluation of the Audit Committee was also considered and discussed by the Board. The Board evaluation involved detailed consideration of Board composition, Board engage in risk management and capital planning and the format of the Board meetings. The Board also considered the range and balance of its activities and was content that it was allocating appropriate time to such key matters as monitoring business performance, risk appetite and strategy.

Taking into account their review and discussions the directors have concluded that the Board is effective in meeting its objectives and fulfilling its duties and obligations. The directors are also satisfied that each of the Board's Committees (Audit, Remuneration and Nominations) carries out its delegated duties effectively. In addition, each director discussed his or her own performance as a director and their Board evaluation questionnaire with the Chairman. The senior independent director canvassed the views of the executive directors and met with the non-executive directors as a group without the Chairman present to consider the Chairman's performance. The Board is satisfied that each director continues to contribute effectively to the Board and the Group and demonstrates commitment to his or her role as a director.

Royal Dutch Shell

The Board carried out a performance evaluation of itself, its Committees, the Chairman and each of the Directors. This was led by the Nomination and Succession Committee and, unlike the process in 2010, was conducted without the assistance of an external facilitator. In accordance with the Code, it is the intention that the evaluation process will be externally facilitated every three years.

The process consisted of the Chairman holding one-to-one interviews with each of the Directors. The Directors were asked to consider certain specific matters in advance, including the overall performance and composition of the Board, strategic issues and key concerns for 2012. The Deputy Chairman and Senior Independent Director conducted a separate review of the Chairman's performance, which involved each Director, completing a confidential questionnaire and an offer to meet and discuss any particular issues. A review of each Board committee was undertaken by the Committee Chairmen which involved the completion of a confidential questionnaire by respective Committee members.

The evaluation of the Board and Board Committees was discussed by the full Board. The Chairman reported on the views of the Directors in relation to Board processes, the nature and tone of discussions, strategy oversight, risk management and internal control, Board committees, succession planning and other such matters. The Board was positive about the progress made in a number of important areas and the Executive Directors in particular welcomed the input on strategic and operational matters from the Non-executive Directors. It was concluded overall that the Board and its committees continued to operate effectively.

The evaluation of the Chairman was discussed by the full Board in the Chairman's absence. The Deputy Chairman and Senior Independent Director reported that the Directors had evaluated the Chairman's performance in 2011 to be strongly positive. He reported that the Executive Directors had in particular found the Chairman to be supportive, while the Non-executive Directors had commented that they thought he led them and the Board well.

Unilever Group

Board evaluation cycle came to third year in Unilever at the end of 2013. The interviews with Directors coupled with the evaluation questionnaires completed by Directors, provided the Boards with important insights and enabled us to assess individual contributions and areas for improvement. The process confirmed that no major modifications were required and that the Boards continue to operate in an effective manner.

The Chairman, in conjunction with the Vice-Chairman & the Senior Independent Director, leads the process whereby the Boards formally assess their own performance, with the aim of helping to improve the effectiveness of the Boards and their Committees. The evaluation process consists of an internal exercise performed annually with an independent third-party evaluation carried out at least once every three years.

The internal evaluation process includes an extensive bespoke and confidential questionnaire for all Directors to complete. The detailed questionnaire invites comments on a number of areas including Board responsibility, performance, operations, effectiveness, training and knowledge. In addition, each year the Chairman conducts a process of evaluating the performance and contribution of each Director, including an interview with each. The evaluation of the performance of the Chairman is led by the Vice-Chairman & the Senior Independent Director and the Chairman leads the evaluation of the Chief Executive Officer, both by means of confidential, bespoke questionnaires. Committees of the Boards evaluate themselves annually under supervision of their respective chairmen taking into account the views of respective Committee members and the Boards.

As per 2013 internal evaluation, the following are agreed actions:

- Continue to provide more discussion time for the Non-Executive Directors in both Board meetings and Non-Executive Director only meetings;

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- Continue to include agenda items, where both management and Non-Executive Directors co-present;
 - Chairman to continue to provide feedback to the Non-Executive Directors throughout the year;
 - Continue to provide feedback on the outcome of key decisions taken;
 - Continue to give Non-Executive Directors exposure to senior executives whether during knowledge sessions or around the Boardroom.

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