

The Role of Board Evaluations (Discussion Group 3)

Mr. Alberto Mauricio Bernal

Acting Secretary General, ISA, Colombia (Companies Circle)

Summary: ISA is a mixed capital company with over 50,000 private shareholders. High level public civil servants currently sit on the Board of ISA and they recognize the importance of good corporate governance practices. Corporate governance has been adopted as part of ISA's internal regulations; it is included in the bylaws, the Corporate Governance Code as well as in the internal regulation of the Board of Directors. The assessment of the Board of Directors is done in three different ways: -

1. Through a comprehensive evaluation of management, using outcome indicators (Financial perspective goals, Customers and Market, Productivity and Efficiency, and Human Resources); -
2. Through reports from the Board of Directors regarding its functioning to the ordinary shareholders' General Assembly meeting; and
3. Through qualitative self-assessment made by the members of the Board and their report in the ordinary shareholders' General Assembly meeting.

By using these mechanisms, ISA measures the performance of the board of directors, determines the efficiency and effectiveness level of the board of directors in the exercise of its functions, determines whether objectives have been met, as well as helps identify potential weaknesses in order to find possible redress options.

Ms. Patricia Gastelumendi

Administration and Finance Manager, Ferreyros, Peru (Companies Circle)

Summary: Ferreyros is a public company since 1971. Its board of directors acts independently, keeping all stakeholders informed and treats them fairly. It is loyal to the company, ensuring the proper use of the company assets and the integrity of their accounting systems and financial statements.

Ferreyros seeks diversification on its Board. According to company bylaws, the current Board of Directors has 8 Directors (4 independent) to encourage diversity of opinions, each with different professional background and expertise. This contributes to better decision-making in the company. They monitor the effectiveness of governance practices, making changes as needed. Ferreyros's Board has implemented a directors self-assessment system to seek director feedback on a range of matters related to board performance and efficiency, which include:

- Effectiveness with which they are interacting during the sessions
- Engagement with management and shareholders
- Attendance to Board sessions and Committees
- Achievement of the Objectives

The assessment of the Board of Directors is both an individual and collective evaluation. Members of the board complete annually a questionnaire about the content of the agendas for each board meeting, topics discussed and participation of the members in decision making.

Mr. Mauro Rodrigues da Cunha

CFA, CIO, Equities, Opus Gestão de Recursos, Brazil

Summary: Board evaluation can be considered the Achilles Heel of corporate governance. While the entire CG construct is based on the competent, unbiased and diligent work of directors as representatives of owners, very little is said on how this link is to be maintained. Board evaluation aims to answer the important question of who is watching the watchers. Many paths have been attempted, but so far one cannot argue that there is any science when it comes to board evaluations. Issues such as empowerment (who should evaluate?), reputation (would directors accept public criticism?), and others haunt the endeavor from the outset.

On the face of these difficulties, many organizations are pushing forward with an evaluation agenda. However, most of these efforts remain very opaque, restricted to board members and, when applicable, controlling shareholders. We would argue that board evaluation needs to be turned on its head. The focus of the process must be its ultimate stakeholders, ie, shareholders as a whole. This would imply that, in public corporations, board evaluation needs to be built with the objective of informing shareholders about who deserves their votes in the GSM. Of course, the process needs to be handled with care, as reputations and the very availability of directors can be in jeopardy if they are subject to much public scrutiny. The board evaluation of the IBGC attempts to provide a way to address these issues.

Moderator/Rapporteur

Ms. Sandra Guerra

Companies Circle Co-ordinator, Brazil

Discussion Questions:

1. *Why is there so much resistance from board directors to evaluations? What prevents boards from evaluating themselves and how can this be overcome?*
2. *What elements are considered in the Board of Directors' evaluation process?*
3. *What is the importance of the evaluation process? How much consideration should be given to such elements as: structured questionnaires, third party involvement, quality time to discuss results, and defining a work program?*
4. *Is time availability- departing from main activity and considering other assignments- receiving enough attention in directors' evaluations?*
5. *What is the importance to investors of board evaluation? What would they want to see presented in the evaluation results, and how?*