Corporate Governance

Shareholders
Legal/Moral Owners
Board of Directors
CEO/Executives
Staff

ACCOUNTABILITY

EMPOWERMENT

Corporate Governance
Compliance
Law & Regulations
Corporate Governance
Whistle blower approach
Related Party Transactions
Conflicts

Legal Duties & Responsibilities
Evaluation

- OUTSTANDING
- Excellent
- Very Good
- Average
- Below Average

Formal Performance, meetings attended, board resolutions, engaged, prepared etc.
A report on the activity of the supervisory board containing at least the following information:

- full names of the members of the supervisory board and its committees;
- supervisory board members’ fulfilment of the independence criteria;
- number of meetings of the supervisory board and its committees in the reporting period;
- self-assessment of the supervisory board
More is needed ...
<table>
<thead>
<tr>
<th></th>
<th>France</th>
<th>Italy</th>
<th>Luxembourg</th>
<th>Netherlands</th>
<th>United Kingdom</th>
</tr>
</thead>
<tbody>
<tr>
<td>When</td>
<td>Annually (Formal evaluation once every three years)</td>
<td>Annually</td>
<td>Every two years</td>
<td>Annually</td>
<td>Annually</td>
</tr>
<tr>
<td>What</td>
<td>The composition of the board Dynamics The individual contribution of each director</td>
<td>The composition of the board Dynamics The individual contribution of each director</td>
<td>The composition of the board Dynamics The individual contribution of each director</td>
<td>The composition of the board Dynamics The individual contribution of each director</td>
<td>The composition of the board Dynamics The individual contribution of each director</td>
</tr>
<tr>
<td>Who</td>
<td>Nomination Committee/Independent director (with help of an external consultant)</td>
<td>The Board (Chairman)</td>
<td>The Board</td>
<td>Chairman</td>
<td>Independent directors (external consultant once every three years)</td>
</tr>
<tr>
<td>How (Disclosure)</td>
<td>Annual report</td>
<td>Annual report</td>
<td>Annual report</td>
<td>Annual report</td>
<td>Annual report</td>
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</table>
EXAMPLES
Explore How Precision Ag Makes a Good Farm Even Better
Precision Agriculture Technology

Operator Stations  Displays  AutoTrac™  Implement Guidance  Receivers

GreenStar™ Documentation  Field Connect™  Mobile Apps  JDLink™ Connect  John Deere Operations Center

Sheila G. Talton
At a separate meeting held in December 2015, the Supervisory Board discussed at length its composition, its own performance, and that of its three committees. For the first time, this self-assessment was facilitated by an external advisor, Aberkyn. In preparation, each member completed an online questionnaire. In addition, Aberkyn's facilitators also conducted one-on-one meetings with each member of the Supervisory Board, as well as with each member of the Executive Board and some corporate staff, in order to include their individual anonymous observations in regard to the functioning of the Supervisory Board and its relationship with the Executive Board and other stakeholders of the Company. Items assessed and subsequently discussed by the Supervisory Board during the meeting held in December 2015 included (1) team effectiveness, (2) interaction and dialogue, (3) content-related effectiveness, (4) relationship with the Executive Board, (5) effectiveness of the Committees, (6) effectiveness of the individual members, and (7) effectiveness of engagement with the organization.

All participants are very positive about the results of this strategic retreat in terms of openness and depth of discussion. Both Boards want to develop this process further in order to create professional and effective cooperation. The effectiveness of the Committees is good, although there is some scope for optimization. The new Chair and the quality of support are highly valued. Some of the key findings and points for follow-up are:

- The Supervisory Board is growing in its advisory role, but further improvement could be realized through in-depth discussion and exchange of ideas about specific topics, strategic subjects, and dilemmas faced by the Executive Board.
- In both Boards, there is a need to ensure diversity in terms of international influence and expertise.
- The Supervisory Board aims to develop its knowledge agenda on external developments, further encouraging a learning mindset for the organization.
- The Supervisory Board will design a more structured performance evaluation and feedback process for the individual members of the Executive Board and will pay more attention to leadership development and succession planning.
"Board of Director" Challenges

Shorter Waves & Faster Pace of Innovation
Transformation

20th Century Company
- Profit-driven
- Hierarchy
- Formalistic
- Closed
- Job security

21st Century Company
- Mission-driven
- Flat
- Inclusive
- Fluid
- Millennials

Company Transformation
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<tr>
<th>23 years</th>
<th>Age</th>
<th>5 years</th>
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<tr>
<td>443m</td>
<td>Subscribers/Users</td>
<td>450m</td>
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<tr>
<td>92,812</td>
<td>Employees</td>
<td>55</td>
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<tr>
<td>$128bn</td>
<td>Valuation</td>
<td>$19bn</td>
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<tr>
<td>$1.4m</td>
<td>Value per Employee</td>
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</table>
Amsterdam

Networked Platforms for Physical World Services

“soon you’ll see huge companies with just two employees—the CEO and the CIO.”

Airbnb is now worth $30 billion

John Chambers
The Corporate Ecosystem

Board of Directors

- Employees
- Leadership
- Investors

- Early Adopters
- Consumers
- Citizens

- Startups
- R&D Universities
- “Partner” Companies

- Former Employees
- Government
- Society
The Corporate Ecosystem

Board of Directors

- Employees
- Leadership
- Investors
- Former Employees
- Government
- Society
- Startups
- R&D Universities
- "Partner" Companies
- Early Adopters
- Consumers
- Citizens
- "Partner" Companies
- R&D Universities
- Startups
- Government
- Society
- Former Employees
- Investors
- Leadership
- Employees

Social Media
Board Evaluations: Building a Culture

- Independent Directors
- Corporate Governance
- Board of Directors
- Regulatory Agenda/Academic Discussions
Join the Conversation!

e.p.m.vermeulen@tilburguniversity.edu

Erik P.M. Vermeulen

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BOARD EVALUATION

Board evaluation methodologies
good practices and international comparisons

Véronique Bruneau Bayard
France

1st December 2016
Why a Board evaluation?

Board evaluation in France

The Board evaluation methodology

Individual director evaluation

Disclosure of Board evaluation
Why a Board evaluation?

- For sound corporate governance, the Board should evaluate its ability to meet the expectations of the shareholders.

- The evaluation should:
  - review the composition of the Board
  - assess the way in which the Board operates
  - check that the important issues are suitably prepared and discussed
  - measure the contribution of each director to the Board’s.

- The Board evaluation implies a corresponding review of the Board’s committees
Board evaluation in France

Pursuant to the French corporate governance code:
- once a year, the Board should debate concerning its operation
- at least once every three years, there should be a formal evaluation
The Board evaluation methodology

The most common method for conducting a formal Board evaluation:

- written questionnaires
- individual interviews
- consolidation of the results in a report
- presentation to the Board
Individual director evaluation

18% 2014
26% 2016

FRANCE
Disclosure of Board evaluation

The French Financial markets regulator encourages companies to communicate on:

- the results of the Board evaluation
- the follow-up
- the areas of improvement that could be envisaged by the company.
Board Evaluation

Achieving Results – in-house versus third party board evaluations

Bina Chandarana
Kotak Mahindra Bank
1st December 2016
Board Evaluation – Extent of involvement of Third Party Consultants

- Designing of appropriate evaluation framework critical
- Hybrid approach – Involvement of both Independent Directors & External agency
- External Agency’s involvement –
  - formulation of criteria/parameters of performance evaluation
  - finalization of evaluation tools
  - setting up of an appropriate evaluation process
  - generating Board Evaluation Report
  - quantitative & qualitative analysis of results
Board Evaluation – Benefits of involvement of Third Party Consultants

- Guidance on best Indian & Global practice
- Availability of research data
- Professional approach
- External perspective on areas of concern
- Independent & impartial advice
- Appropriate benchmarking of results
Board Evaluation – Process followed

- Formulation of criteria for performance evaluation by Nomination & Remuneration Committee (jointly with external agency)

- Designing of board effectiveness questionnaire (jointly with external agency) for
  - Board
  - Each of the Board Committees
  - Chairman
  - Individual Directors

- Circulation of Questionnaire to all directors

- Generation of Board Evaluation Report based on responses

- Assessment of performance of Board, Committees, Chairman and individual directors by Independent Directors

- Assessment of performance of Independent Directors by the Board
Board Evaluation Process – Key Message

Ultimate aim

• achievement of significant performance improvement
  – At board level
  – At individual level
  – At organizational level

• reviewing effectiveness of Board/Committees/Directors

• enhancing standards of governance
THANK YOU
Session 4: Disclosure – practices for reporting board evaluation

EXPERTS FORUM ON CORPORATE GOVERNANCE IN INDIA

Hideaki Tsukuda

1 December 2016
Agenda

• Regulations on board evaluation disclosure  p. 3

• Examples of board evaluation disclosure  p. 4 - p. 6

• Key learnings from Japan  p. 7

• Key questions for discussion  p. 8

• Appendix  p. 10 - p. 14
**Regulations on board evaluation disclosure**

<table>
<thead>
<tr>
<th>Body of regulation</th>
<th>USA</th>
<th>UK</th>
<th>Germany</th>
<th>India</th>
<th>Japan</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Hard Law (Listing rules)</td>
<td>• Soft Law (Code)</td>
<td>• Soft Law (Code)</td>
<td>• Soft Law (Code)</td>
<td>• Soft Law (Code)</td>
<td></td>
</tr>
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</table>

<table>
<thead>
<tr>
<th>What to evaluate</th>
<th>USA</th>
<th>UK</th>
<th>Germany</th>
<th>India</th>
<th>Japan</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Whether board and committees are functioning effectively</td>
<td>• Performance of the board, committees, and individual directors</td>
<td>• Supervisory Board’s activities</td>
<td>• Performance of the board, committees, and individual directors</td>
<td></td>
<td>• Board function (and self-evaluations of each director)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>What to disclose</th>
<th>USA</th>
<th>UK</th>
<th>Germany</th>
<th>India</th>
<th>Japan</th>
</tr>
</thead>
<tbody>
<tr>
<td>• The way how the evaluation has been conducted</td>
<td></td>
<td>• Identification of external facilitator and its connection with company (FTSE 350)</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>How to disclose</th>
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<th>UK</th>
<th>Germany</th>
<th>India</th>
<th>Japan</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Proxy statement</td>
<td>• Annual report</td>
<td></td>
<td>• Annual report</td>
<td>• CG report</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Frequency</th>
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<th>UK</th>
<th>Germany</th>
<th>India</th>
<th>Japan</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Annual basis</td>
<td>• Annual basis</td>
<td>• External evaluation: at least once in 3 years (FTSE 350)</td>
<td>• Regular basis</td>
<td>• Annual basis</td>
<td>• Annual basis</td>
</tr>
</tbody>
</table>

(Source: Regulations of respective countries. Egon Zehnder conducted research of these regulations)
Disclosure of board evaluation – Barclays PLC
- Detailed. “Findings” and “Actions (to be) Taken” based Framework

(Source: Barclays PLC Annual report 2015)
## Disclosure of board evaluation - Japanese Company A
- Changed the disclosure policy in 2016

<table>
<thead>
<tr>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>• We have performed annual evaluation of the board of directors since 2013.</td>
<td>• Every year, we analyze and evaluate the effectiveness of the Board of Directors, and then review and implement measures against any issues discovered. By using a PDCA cycle to review the progress in improvement, we is engaged in the continual enhancement of the abilities of the Board of Directors.</td>
</tr>
<tr>
<td>• We have interviewed all directors on their self-evaluation, analyzed the results and prepared evaluation reports based on those results.</td>
<td>• Following the advice of a third-party external consultant, we conducted interviews of all directors on issues relating to the Board of Directors, including its structure, management, and contributions made, as well as how it conducts proposals and discussions.</td>
</tr>
<tr>
<td>• Based on the reported results of the evaluation of the board of directors, the Governance Committee* has deliberated means of maintaining and improving the effectiveness of the board of directors and reported on its deliberations to the board of directors.</td>
<td>• The summary of the results of the evaluation of the Board of Directors for fiscal year 2015 is as follows:</td>
</tr>
<tr>
<td>• Since we changed to a company with three committees in June 2015, this function has been performed by the Nominating and Governance Committee.</td>
<td>1) As an evaluation of the first year of our transition into a company with three committees, the Board of Directors and Committee Members were evaluated to have appropriately established a system that leverages management oversight functions. They are also deemed to have made steady improvements to the management of the Board of Directors, such as the way it conducts proposals and discussions, contributions made from directors, and the progress of reform.</td>
</tr>
<tr>
<td>• The summary of the results of the evaluation of the board of directors for the Fiscal Year 2014 is as follows:</td>
<td>2) In enhancing its monitoring model, our recognizes that flexible response by the Board of Directors to environmental changes that affect management, such as further changes to the environment which enhance fundamental discussion, as well as events such as negative interest rates and irregularity in the global economy, is an important issue.</td>
</tr>
<tr>
<td>1) The degree of achievement by the board of directors of its aims has improved since last year through the increase in the number of outside directors to five and their participation in the discussions at the committees as well as the board of directors.</td>
<td></td>
</tr>
<tr>
<td>2) Further limitation of agenda items to facilitate essential debate, production of materials and definition of issues for debate to contribute to more productive deliberation by the board of directors, and improvement of explanation on business performance and ways of structuring discussions are expected.</td>
<td></td>
</tr>
</tbody>
</table>

(Source: corporate web site of Company A)

Examples of board evaluation disclosure
Disclosure of board evaluation - Japanese Company B
- Considered to be one of the best practices in Japan

Company B (2016)

- Continued from last year, the Company performed the second evaluation by third-party organization of the Board of Directors from August to September 2016.

- In light of the roles and responsibilities of the Board of Directors, an analysis/evaluation was performed for each of the items for evaluation, including the Board of Directors’ composition and its operational status, agenda items, and materials for deliberations.

- The evaluation was performed using a methodology whereby the third-party organization prepared a report containing summaries and analyses of the results of “individual interviews” and “direct observation of the Board of Directors.”

- Board of Directors” (see Note) and the Board of Directors carried out deliberations on the evaluation based on the report.

  (Note) “individual interviews”: The third-party organization conducted individual interviews in which all Directors and Audit & Supervisory Board Members (both Internal and Outside) were inquired about their views and awareness of issues in response to various questions concerning the Board of Directors.

  (Note) “direct observation of the Board of Directors”: The third-party organization was present at the meetings of the Board of Directors and directly observed the actual discussions held.

- Based on the results of the evaluation of the previous year’s survey, the Company has taken initiatives, including revising the Rules of the Board of Directors to clarify agenda proposals and benchmarks on agenda proposals, securing time for discussions by ensuring to provide prior explanations and reducing explanations on proposals at meetings of the Board of Directors, and improving materials on proposals, and it works to secure the effectiveness of the Board of Directors on the whole.

- As a result of these efforts, the evaluations of the Board of Directors conducted from August to September 2016 identified significant improvements with regard to the Board’s focus on management strategy agendas and setting up mechanisms to ensure effective discussions, such as prior explanations for Outside Directors and Outside Audit & Supervisory Board Members, and holding off-site trips for Directors and Audit & Supervisory Board Members. In addition, the evaluation concluded that the supervisory function is steadily improving as a result of changes to the decision-making process, such as submitting important matters for consideration to the Board of Directors at an early stage. On the other hand, the evaluations also established that more is still expected in terms of reforming the Board of Directors, and problems still remain with regard to improving implementation (i.e., speed of execution) in order to swiftly execute strategic planning for the Group. In light of these results, we will resume our efforts

(Source: corporate web site of Company B)
Key learnings from Japan

1. There are various approaches to disclosure. While some companies focus on communication with investors, some companies are reluctant to disclose in details.

2. Disclosed evaluation does not necessarily represent the whole picture. It is difficult to judge whether the company’s corporate governance is good or bad based on the disclosure.

3. Better disclosure could potentially contribute to better engagement with investors and other stakeholders.

4. Better disclosure depends on better board evaluation. And better board evaluation depends on Chairman of the Board.
Key questions for discussion

1. What is better disclosure?

2. What is the benefit of better disclosure?

3. How can we encourage more companies to do “better disclosure”? 
## Key provisions of board review

<table>
<thead>
<tr>
<th>Country</th>
<th>Regulation</th>
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<tbody>
<tr>
<td>![US Flag]</td>
<td>“The board should conduct a self-evaluation at least annually to determine whether it and its committees are functioning effectively.” (NYSE Listed Company Manual)</td>
</tr>
<tr>
<td>![UK Flag]</td>
<td>“The board should state in the annual report how performance evaluation of the board, its committees and its individual directors has been conducted. ...FTSE 350 companies should be externally facilitated at least every three years. The external facilitator should be identified in the annual report and a statement made as to whether they have any other connection with the company.” (Corporate Governance Code)</td>
</tr>
<tr>
<td>![German Flag]</td>
<td>“The Supervisory Board shall examine the efficiency of its activities on a regular basis.” (CG Code)</td>
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</tbody>
</table>
| ![Indian Flag] | “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.” (CG Code)  
“There shall be attached to statements laid before a company in general meeting, a report by its Board of Directors, which shall include: ...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.” (Companies Act) |
| ![Japanese Flag] | “Each year the board should analyze and evaluate its effectiveness as a whole, taking into consideration the relevant matters including the self-evaluations of each director. A summary of the results should be disclosed.” (CG Code) |
Board Evaluation in Japan – internal vs. third-party

Internal evaluation is 55.8%, while third-party evaluation is still at 7.1% in 2016.

Q. Does your company conduct evaluation of Board and its committees on regular basis?

<table>
<thead>
<tr>
<th>Rate of internal/third-party assessment</th>
<th>Results (from 2015 to 2016)</th>
</tr>
</thead>
<tbody>
<tr>
<td>19.5%</td>
<td>2015 (N=314)</td>
</tr>
<tr>
<td>55.8%</td>
<td>2016 (N=380)</td>
</tr>
</tbody>
</table>

(Source: Egon Zehnder “Japan Corporate Governance Survey 2016”)
Board Evaluation in Japan - methodology

57.7% of 239 companies conducted board evaluation only by questionnaire.

Q. In what manner did you conduct the evaluation of Board and its committees?

<table>
<thead>
<tr>
<th>Comparison of the methods of assessment</th>
<th>Results in detail (2016)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>N=239 (%)</strong></td>
<td>Only by questionnaire</td>
</tr>
<tr>
<td>Questioner</td>
<td>57.7</td>
</tr>
<tr>
<td>Questioner + Interview</td>
<td>18.4</td>
</tr>
<tr>
<td>Questioner + Interview + Additional efforts</td>
<td>33.3</td>
</tr>
<tr>
<td>Interview</td>
<td></td>
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</table>

(Source: Egon Zehnder “Japan Corporate Governance Survey 2016”)

Companies conducted regular internal assessment (n=212)

- 59.9
- 9.4
- 18.4
- 7.1
- 5.2

Companies conducted regular third-party assessment (n=27)

- 40.7
- 7.4
- 33.3
- 14.8
- 3.7
About Egon Zehnder

Size, Reach, Scope

Egon Zehnder is the largest privately held leadership advisory firm worldwide. We are supporting leading companies through advising the board, nomination committee, and management team on corporate governance, CEO succession, leadership development and NED/executive search.

We are equally owned by more than 230 partners, with more than 420 consultants, working in 69 offices and 42 countries. We have more than 1600 employees worldwide.

With more than 50 years of experience, we hold the number one position in Europe, Asia-Pacific and South America, and are an industry leader in North America.

Highly Collaborative Structure

We operate as a single unit, with a consistent methodology and a single profit center.

<table>
<thead>
<tr>
<th>Amsterdam</th>
<th>Buenos Aires</th>
<th>Houston</th>
<th>Malmö</th>
<th>420+ consultants</th>
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