

# OECD Global Network on Privatisation and Corporate Governance of State-Owned Enterprises 3.3.2010



## SOME ASPECTS on BOARD EVALUATION

**Arto Honkaniemi**  
**Senior Financial Counsellor**  
**Ownership Steering Department**  
**Prime Minister's Office**  
**Government of Finland**



**OWNERSHIP STEERING**  
GOVERNMENT OFFICE

# BOARD EVALUATION – STILL AN EMERGING AND DEVELOPING ISSUE

- PRINCIPLES (2004):
  - “In order to improve board practices and the performance of its members, an increasing number of jurisdictions are now encouraging companies to engage in board training and voluntary self-evaluation that meets the needs of the individual company.”
- GUIDELINES (2005):
  - CHAPTER VI.F: “SOE boards should carry out an annual evaluation to appraise their performance.”
  - = INTERNAL SELF-APPRAISAL OF ITS PERFORMANCE BY THE BOARD ITSELF



# ANNOTATIONS TO GUIDELINES

## CHAPTER VI.F:

- “...systematic evaluation process...”
- “... a necessary tool...”
- “...enhancing SOE board professionalism...”
- “...highlights the responsibilities of the board...”
  - “...and the duties of its members...”
- “...identifies necessary competencies...”
  - “...and board member profiles...”
- “... an incentive for members to devote time and effort...”



# ANNOTATIONS TO GUIDELINES

## CHAPTER VI.F:

- “...should scrutinise overall board performance...”
  - “...and could include the effectiveness and contribution of individual members...”
- “... should be carried out at the responsibility of the Chair...”
- “...the review of board size, composition and remuneration...”
- could develop “...induction and training programmes...”
- “...could seek advice from external and independent experts...”
  - “...as well as by the ownership entity.”



# TODAY TO BE FOUND IN MOST (ALL?) CODES ON CORPORATE GOVERNANCE

## FIVE EXAMPLES:

- MIXED BOARDS:

- U.K: The Combined Code on Corporate Governance (2008)
  - 2009 Review of the Combined Code
- South Africa: King Code of Governance for South Africa 2009  
“King III”

→ PRINCIPLES SUPPORTED BY RECOMMENDED PRACTICES

- EXTERNAL, NON-EXECUTIVE BOARDS:

- Finland (2008)
- Sweden (2008)
- Norway (2009)

→ PRINCIPLES WRITTEN IN A VERY GENERAL AND COMPACT MANNER



# BASIC PRACTICES

- THE EVALUATION SHOULD BE PLANNED AND EXECUTED TO SUITE THE CIRCUMSTANCES PREVAILING IN THE COMPANY AND SERVING THE NEEDS DERIVING THEREFROM
  - EVALUATION DONE ANNUALLY
  - SYSTEMATIC AND STRUCTURED APPROACH
  - PRIME RESPONSIBILITY WITH THE CHAIRMAN
  - EVALUATION OF
    - THE BOARD AS A WHOLE
    - THE COMMITTEES
    - THE CHAIRMAN
    - INDIVIDUAL BOARD MEMBERS
    - THE CEO
    - EXECUTIVE DIRECTORS
- DOZENS (HUNDREDS?) OF QUESTIONNAIRES AND FORMULAS AVAILABLE



# ITEMS OFTEN COVERED

- SIZE OF THE BOARD
- COMPOSITION OF THE BOARD
  - PROFESSIONAL EXPERTISE
  - VARIETY
- SIZE AND COMPOSITION OF THE COMMITTEES
- ADHERENCE TO BOARD CHARTER
- SUFFICIENCY OF INFORMATION PROVIDED
- MODALITIES OF THE MEETINGS
  - CALLS FOR MEETINGS
  - MATERIALS
  - MINUTES AND SECRETARYSHIP
  - CHAIRMANSHIP
  - TIME REQUIRED
- ATMOSPHERE OF THE MEETINGS



# APPRAISAL OF THE PERFORMANCE OF THE BOARD

- PERFORMANCE OF THE BOARD OR PERFORMANCE OF THE MANAGEMENT?
- PERFORMANCE OF MANAGEMENT OFTEN JUDGED BY FIGURES AND THEIR DEVELOPMENT
  - BALANCE SHEET
  - PROFIT/LOSS
  - KEY PARAMETERS
  - SHARE PRICE
  - ETC.
- BOARD SETS STRATEGIC GOALS AND EVALUATES THE ACHIEVEMENT OF THESE
- PRACTICES OF THE BOARD: ARE THEY PART OF THE PERFORMANCE?



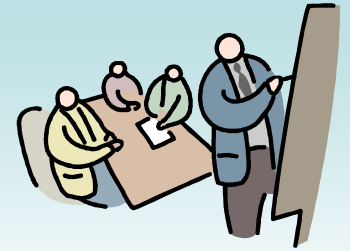


# APPRAISAL TECHNIQUES

- INTERNAL TECHNIQUES
  - CHAIR INTERVIEWS ALL, THEN GIVES A REPORT FOLLOWED BY JOINT DISCUSSION
  - CHAIR OR CORPORATE SECRETARY PREPARES A QUESTIONNAIRE, MEMBERS REPLY, CHAIR/SECRETARY DELIVERS A REPORT, DISCUSSION FOLLOWS
- USE AND ROLE OF EXTERNAL FACILITATOR
  - NOTE: ONLY FACILITATOR, NOT EVALUATOR
  - VARIOUS STYLES OF INTERVIEWS AND QUESTIONNAIRES
  - VARIOUS STYLES OF REPORTING TO THE BOARD
  - FACILITATOR TO ADD VALUE TO THE DISCUSSION
- REPORTING THE RESULTS
  - PRIMARILY RESPONSIBILITY OF THE CHAIR
  - TO THE BODY MAKING PROPOSALS TO THE AGM
  - MADE PUBLIC?
    - WHERE?
    - TO WHAT EXTENT?



# A FEW PERSONAL REMARKS



- A STRUCTURED, SYSTEMATIC, ANNUAL BOARD EVALUATION VERY MUCH ADVISABLE
  - TODAY MUCH EASIER TO COMPLY THAN TO EXPLAIN
- IMPROVES THE PERFORMANCE OF THE BOARD YEAR AFTER YEAR
  - HELPS ALSO NEW MEMBERS TO CATCH ON
- EXECUTION TO BE SUITED TO COMPANY NEEDS
  - BOARD MEMBERS MUST BE MOTIVATED TO SPEND TIME AND EFFORT
- SME'S PUT MORE EFFORT TO BOARD EVALUATION THAN BIG, LISTED ONES?
- NO MATTER HOW THE EVALUATION IS EXECUTED – THE FINAL DISCUSSION IS MOST VALUABLE
- ROLE AND CONTRIBUTION OF THE CHAIR ABSOLUTELY ESSENTIAL

# MORE PERSONAL REMARKS

- ADVISABLE TO CHANGE THE SYSTEM FROM TIME TO TIME
  - TOTALLY INTERNAL QUESTIONNAIRE THIS YEAR – EXTERNAL FACILITATOR NEXT YEAR
- SEPARATE EVALUATION OF COMMITTEES AWKWARD IF THEY ARE VERY SMALL
- INVOLVING THE CEO BOTH AS AN EVALUATOR AND AS AN EVALUEE MAY ADD VALUE ALSO WITH NON-EXECUTIVE BOARDS
- CHAIR AND BOARD MEMBERS MUST BE COMMITTED TO IMPROVEMENTS
- RESULTS OF THE EVALUATION ARE TO BE REPORTED APPROPRIATELY AND IN A SYSTEMATIC FASHION
  - IN SOE'S AS GUIDED BY THE OWNERSHIP ENTITY

