



BOARD EVALUATION PRACTICES

EXPERIENCES FROM THE LATIN AMERICAN COMPANIES CIRCLE

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A. Preamble

The *Board Evaluation Practices: Experiences from the Latin American Companies Circle (“BE Practices”)* was prepared by the Companies Circle and its Board Evaluation Working Group.¹

In preparation for this report, and in order to collect the relevant information for analyzing the companies’ practices, the Working Group conducted a survey among the Companies Circle members. This information was used to develop a set of good practices to be considered by other Latin American companies when undertaking Board evaluations.²

Moreover, the Working Group also reviewed the recent market literature on Board evaluation and presented the results of a survey of fifteen out of seventeen members of the Companies Circle that conduct Board evaluations.

This report also covers Board evaluation practices employed by Latin American companies and their motivation, considering its scope and tools. The document presents additionally what companies are expected to do as a result of the evaluation process to improve Board performance.

This document first presents the different types of Board evaluations. Then it describes existing practices when conducting Board evaluations based on the experiences of the Companies Circle. Section D presents the main conclusions and useful practices to be considered by Latin American companies that undertake Board evaluations. The BE Practices concludes with Appendices 1 and 2 that present a review of external research and a typical example of Board evaluation topics.

The main findings of the study are:

- Board evaluations have been increasingly recognized in the region as a useful tool to improve the performance of the Board.
- Trust in the credibility and confidentiality of the evaluation process is a key factor for its success.
- In the path to build an effective Board, evaluations require the commitment of directors to undergo a thorough review to identify the strengths and areas for improvement.
- The main results of the evaluation should be inputs to an action plan, followed up by the Board.

¹ The Companies Circle review of Board Evaluation Practices was developed as a follow up to the Latin American Corporate Governance Roundtable’s 2010 report "Achieving Effective Boards - A comparative study of the legal framework and board practices in Argentina, Brazil, Chile, Colombia, Mexico, Panama and Peru," which was prepared by the OECD and the eStandards Forum, with the support from the Global Corporate Governance Forum.

² Of the 19 Companies Circle members, 15 conduct Board evaluations in some form.

B. Types of Board Evaluations

Board evaluations may be classified as self-evaluations or external evaluations.

Through self-evaluations, the Board is responsible for managing both the process as well as the content. Self-evaluations are typically coordinated either by the Board Chair, the Governance Committee Chair, or the Board Secretary/ Corporate Governance Officer. A Boards' performance is generally evaluated by a standard questionnaire and/or through one-on-one interviews.

A Board-managed evaluation process may also move beyond strict self-evaluation by seeking assessment input from stakeholders (e.g., executive officers and shareholders).

External evaluations are carried out by an external third party, retained by and reporting to the Board. External evaluations of Board members are also made by using a questionnaire and/or one-on-one interviews. But such external evaluators may bring their own judgment on the quality of the Board's performance during the evaluation, and may decide to also request inputs from other stakeholders.

It is of great importance that trust is established in the credibility and confidentiality of the process of Board evaluations, regardless of whether it is managed by the Board itself or by a third party. Trust is the best incentive to encourage candid input and feedback from Board members and other stakeholders, and makes it more likely that the evaluation results will be taken seriously by the Board.³

C. Board Evaluation Practices in the Latin American Companies Circle

c.1) Motivation

Most of the Companies Circle members today implement some form of Board evaluations, which is the result of an important transformation that Boards in Latin America have undergone in recent years. The reasons why companies implement Board evaluations may vary, but there are typically three main motivations.

c.1.1) Improving the overall Board performance, as well as the company's performance indirectly

Thirteen out of fifteen companies that conduct Board evaluations acknowledge that performance improvement is the main motivational element, in addition to raising the company's Corporate Governance standards.

Thus, Board evaluations have become a very useful tool for ensuring that the Boards and their members function properly, according to their assigned roles. Currently, this statement has taken

³ Based on review of the earlier drafts of the BE Practices by David W. Anderson, MBA, PhD, ICD.D, President, The Anderson Governance Group.

an extraordinary dimension, in view that legislation/regulation and market trends clearly indicate the need for progressive, value-generating Boards in contrast with the traditional vision, in which Boards could be characterized as passive or even inconsequential.

Some companies might be motivated to conduct evaluations that would help them identify how the Board and individual directors contribute to the success of the company. Evaluations may shed light on some relevant questions, such as:

- Is there an appropriate method to evaluate the fundamentals of a company's performance and link them to Board activities?
- Is there an appropriate communication channel with management through which information flows, allowing the Board to take effective decisions?
- Are the interests of the Board of Directors in line with those of the company and ultimately of all its shareholders?

Board evaluations can help shape a broader view on the company's strategic positioning and performance in the short, medium and long term.

c.1.2) Ascertaining the fulfillment of the Board's responsibilities

The inclusion in the evaluation questionnaire of certain mandatory requirements related to directors' performance in different jurisdictions has also proven for some companies to be a sufficient motivation to conduct Board evaluations as a way to ensure that the Board is properly doing its job.

In some cases—particularly in listed companies—Board evaluations may be resisted and seen as a threat if they are done incorrectly and confidentiality is not assured, thus creating a potential liability for directors. A way of overcoming possible internal resistances is having an internal documents retention policy and using trusted parties to carefully handle and report on the data from Board evaluations.

Directors may find evaluations to be a tool that helps them improve their performance, and consequently improve the quality of their advice to officers on the complexities inherent to the business operations.

c.1.3) Responding to external demands

Addressing investors' expectations could be another motivation to implement Board evaluations. The Boards of modern and well-performing companies are expected to have directors that not only add value to business operations but that are also capable of independent judgment and have expertise in financial, accounting, and audit procedures to comply with the applicable legislation or regulation in some jurisdictions.

Since the introduction of the Sarbanes-Oxley Act's provisions about auditing, internal controls, and accounting fraud prevention, the commitment of directors to the improvement of Board performance represents a reassuring element not only to shareholders but, most importantly, to the Board members themselves.

A formal assessment of the Board can thus serve to measure the performance of the team of directors, identify its strengths, weaknesses and opportunities for improvement and consequently, develop plans to correct them.

Finally, all of the foregoing is to the benefit of all shareholders, and to promote value creation in the markets in which companies with good corporate governance participate.

c.2) Who Conducts the Evaluation?

In connection with the party responsible for implementing the evaluation process, six out of the fifteen companies of the group indicated the use of external consulting firms. Interestingly, some of these external consulting firms have no ties to the Board of Directors or senior management, and therefore have full autonomy in tabulating the results and examining the appraised parameters. Others identified the Board secretary, or some executive officer as an individual who coordinates the process.

c.3) Scope and Frequency of Evaluations

Regarding the topics of evaluation, it appears that all fifteen surveyed companies conduct an evaluation of the Board of Directors as a whole. In addition, five companies evaluate the Chair of the Board, six companies also evaluate the Board secretary and eleven evaluate Board committees. Besides, seven companies informed to be evaluating the CEO, but it is not mentioned if in this case the CEO is a Board member. Evaluation is performed every year by fourteen companies and one of the companies does it every three years.

Table 1 below lists recommended practices regarding the Board evaluations by a number of governance codes:

Table 1: Board Evaluation International Practices

Institution/Source	Frequency	Recommendations
The U.K. Corporate Governance Code	On a yearly basis	(i) The Board should undertake a formal and rigorous annual evaluation of its own performance and that of its committees and individual directors. (ii) Evaluation of the Board of FTSE 350 companies should be externally facilitated at least every three years (on a comply-or-explain basis).
U.S. National Association of Corporate Directors (NACD)	On a regular basis	The Governance Committee is responsible for ensuring that a process exists for the Board to routinely assess its own performance and the performance of its committees, as well as for each director to perform a self-assessment.

IBGC Code of Best Practices (Brazilian Institute of Corporate Governance)	On a yearly basis	<ul style="list-style-type: none"> (i) A formal evaluation process of the performance of the Board, of individual directors and of the CEO. (ii) The process shall be conducted by the Chair. (iii) The participation of an outside expert may contribute to the effectiveness of the process. (iv) Evaluation system shall be adapted to each organization. (v) Disclosure of the process and of the evaluation results to the shareholders.
CNV (Argentina's securities regulator)	On a yearly basis	A formal Board Evaluation.
Mexican Code	Not defined	Performance evaluation of the Board and its members' fiduciary duties.
Panama Best Practice Code	On a yearly basis	Board, Board members and Board Committees evaluation.
OECD	On a yearly basis	Board of listed companies should undergo annual internal evaluations covering both the competencies and performance of their members as well as the Board's functioning as a whole.

c.4) Tools and Processes

The most widely-used tool by Circle companies to evaluate the directors is a questionnaire. In fact, twelve out of the fifteen companies surveyed use this mechanism.

Each one of the fifteen companies surveyed structures the evaluation questionnaire and/or the interviews according to their own needs. Usually, the questionnaires are divided into sections dealing with the following topics: (i) flow of information; (ii) leadership and focus of the meetings; (iii) timeliness and quality of decisions; (iv) level of Board responsibility; (v) harmony within the group; and (vi) directors' conduct/behavior. However, differences are found in the size of questions asked: questionnaires comprised of 1–20 questions are employed in as many companies as those that apply 40–60 questions, and only one of the surveyed companies uses a 99-question questionnaire.

For illustration purposes, the Appendix to this paper presents the evaluation topics as guidance for the process of evaluating the Board as a whole, the individual directors, the chairperson, the Board committees and the Board secretary.

The results of the evaluations can be either discussed between the Chair and each Board member on individual basis, or processed and discussed in a combined manner within the Board, without identifying any particular names.

In some cases, the questionnaire is supplemented with other mechanisms: five out of twelve companies make use of written comments. Additionally, some companies mentioned the use of other tools, such as interviews and an evaluation matrix.

The time spent in the entire evaluation process, from its beginning until full completion, generally ranges from one to two months.

c.5) Outcomes of the Board Evaluations

As mentioned in section c.1 above, despite the fact that some companies might be motivated to conduct Board evaluations for compliance purposes, such Board evaluations are ultimately aimed at improving both the performance of the Board and of the company itself.

For most Circle companies that took part in the survey (eleven out of fifteen companies), the results are presented on an aggregate basis, and three companies present the results on both aggregate and individual basis. For instance, one Brazilian company reported that the consolidated results (aggregated) and comments are presented at a Board meeting, and individual results in an aggregate format are provided to the director and to the Chairperson. In addition, in one case it was reported that each evaluation item's score is compared to the previous year's score, in order to track the performance progress. Moreover, one of the Circle companies conducts individual feedback sessions on the evaluation results.

The recipients of the Board evaluation results vary. In eleven companies, all Board members receive the results, while in one company the Corporate Governance Officer consolidates the responses, which are then discussed at the Corporate Governance Committee and presented at the next Board meeting. In two companies, the Chair of the Board receives the results and presents them to the Board.

Beyond providing the results to Board members themselves, two companies report disclosing the results to all stakeholders and one company reports on the functioning of its Board during the Annual Shareholders Meeting. In two companies, both the shareholders and Board members are informed of the results. Meanwhile, in seven companies only Board members are informed of the results, while in three companies Board members and the CEO/Executive Officers are informed. Certainly, the degree of detail that is disclosed tends to be higher when the results are disclosed only to Board members.

Finally, regarding the manner in which companies disclose the process of conducting Board evaluation, eight companies present it in their Annual Reports, one through the SEC form 20-F,⁴ while three, for different reasons, do not report it to the market. As the case above, one Colombian company stands out as it discloses the implementation of its Board evaluations in its Annual Report, at its Annual Shareholders Meeting through the Boards' report on its functioning, and on its website. Another Brazilian company also discloses the process of Board evaluations through several channels, including its Corporate Governance Guidelines, its Annual Report, and website.

⁴ The SEC form 20-F is an annual report that must be submitted by all foreign private issuers that have listed equity shares on exchanges in the United States.

c.6) Action Plan

Any Board evaluation should be focused on the improvement of Board performance, through the development and implementation of action plans. Board evaluations are not simply a control mechanism over Board members, but a tool to identify areas of governance improvement. Nevertheless, receiving a poor evaluation may certainly result in a director not being re-elected.

Certainly, Board evaluation in and of itself is not the end goal. Once the results have been analyzed, distributed, and disclosed, the companies should take action based in the relevant areas. In almost all surveyed companies (eleven out of fifteen), the results of Board evaluations constitute an input for considering the renewal of Board members terms.

Likewise, eleven out of the fifteen surveyed companies develop an action plan for improving Board performance as a result of the evaluations. Specific actions depend on the particular opportunities for improvement within each Board. For example, one member of the Circle adopted measures in areas such as accountability, type of information and how it is presented during regular Board meetings, and the setup of topics during the meetings. Action plans in some companies are considered and approved by the Board. In other companies, action plans are developed and followed-up by the Corporate Governance Committee. The monitoring may be also delegated to the Board secretary.

Interestingly, one Argentinean company takes the Board evaluation process as a means to evaluate its overall corporate governance functioning, so that the changes arising from the evaluation have gone beyond the mere performance of the Board.

D. Practices to Consider

Board evaluation can be an important tool to improve the Board's/company's performance. Its purposes and benefits should be clearly communicated to all Board members before embarking on the evaluation process.

There is no "one size fits all" approach—evaluations should consider the specific context of each company. The implementation of improvements requires discipline and commitment of the Board, as it is a continuous, evolving, and dynamic process.

Evaluating the leadership of the Chairperson is an important factor to assure the effectiveness of Boards, as without a strong leadership of the Board and the Committees, there is little chance for their success.

As a result of this analysis, we conclude with a set of general practices derived from the Companies Circle members' experiences that could be considered by the broader business community of Latin America:

1. Board evaluation is useful and all companies should consider implementing it in order to improve the Board's/company's performance.
2. The Chairperson should be the leader of the process, supported in the operational process by the Board secretary and/or external consultants.

3. It is the Board's responsibility to define the scope, methodology, and process for Board evaluation, supported by the Corporate Governance Committee (if appointed) and/or the Board secretary.
4. Information about the process of Board evaluation may be included in the Annual Report, and actions taken to improve the Board performance derived from the Board evaluation results may also be disclosed to the market.
5. Elements to be considered in the Board evaluation process include:
 - 5.1 Persons and bodies subject to evaluation:
 - a. Directors could evaluate the Chair, the Board as a collective body, themselves individually, their fellow Board members, committees, and the Board secretary.
 - b. The CEO,⁵ Board secretary, and other members of senior management interacting with the Board should evaluate their interaction with Board members and the quality of their communication.
 - c. CEO's role as a member of the Board (if applicable).
 - 5.2 Topics to be evaluated:
 - a. Structure
 - b. Dynamics and Functioning
 - c. Business Strategy Governance
 - d. Monitoring Role
 - e. Supporting and Advice Role
 - f. Individual Characteristics of the Directors
 - g. The Chairperson Role
 - h. The Board Secretary and Committees' Role

Appendix 2 contains suggestions of subtopics to be considered for evaluation as part of each one of the items (a) to (h) mentioned above, depending on the level of complexity.

6. Board evaluations could be implemented on an annual basis. There can be an alternation of an in-depth evaluation in one year with a simpler process in the next one, built precisely to track improvements and avoid repetition of the previous year's questions.
7. The Board should discuss the results collectively, with individual feedback sessions conducted by the Chair. The Board should dedicate adequate time (at least one specific session) to discuss the results of the Board evaluation and to agree on an action plan.
8. The results of Board evaluations may be used as an input to an action plan tracked by the Chair, setting deadlines and responsibilities.

⁵ CEO evaluation is a central task of the Board, but it is not considered in the scope of this document.

9. The Board evaluation process should be informed to all shareholders and disclosed in the annual report, in the Corporate Governance Guidelines, and in the website of the company. Individual directors' results shall be treated as confidential.
10. The Board evaluation process may be applied in all companies, regardless of the size. The depth of analysis will depend on the maturity of the governance system. For companies initiating improvements in their governance practices, a simpler process could be employed.
11. Individual interviews may consider three topics: self-evaluation, evaluation of other Board members (peer-to-peer), and the Board (and committees) as a whole.
12. Board evaluations can be employed as a tool to improve Board composition.
13. A follow up on the action plan should be mandatory.

E. Conclusion

In the aftermath of the 2008 global financial crisis, it could not be clearer how crucial it is to review the effectiveness of the Board of Directors, the body that is at the core of governance in companies and where strategic issues are decided. By being responsible for evaluating the functioning of the governance model in a company and adopting good practices for its own evaluation, the Board sends out the right message to the entire organization.

The Companies Circle members firmly believe that Board evaluations, implemented correctly, can serve as an important tool in the achievement of effective Boards and the continuous improvement of corporate governance in companies.

Appendix 1. Review of External Research on Board Evaluations

To guide us in the process of understanding the concept, procedures, and objectives of the Board evaluations, an analysis of external references was conducted. Below we provide a summary of the most relevant ones:

*Achieving Effective Boards*¹

The "Achieving Effective Boards" paper aims to present the scope of corporate governance (based on legislation, regulation, and voluntary codes), primarily in some of the largest Latin American markets, and to supplement them with information on the currently adopted best practices.

This study shows that only Argentina, Brazil, Mexico, and Panama address the issue of Board evaluations in voluntary codes and resolutions. Argentina and Brazil recommend the adoption of annual evaluations based on a written document to serve as a benchmark, and Brazil and Mexico recommend individual evaluation of Board members. In Brazil, Instruction no. 480/2009 issued by its securities commission, *Comissão de Valores Mobiliários* (CVM), requires that listed companies disclose evaluation mechanisms of Board members and committees.

The report finds that Board evaluations are not a common practice in Latin American countries, and that the evaluation of individual Board members is even less common.

The OECD proposal presented at the Latin American Corporate Governance Roundtable in 2010 advocated that:

“(i) as a first step to better establish the concept in the region, it should be recommended in voluntary corporate governance codes; (ii) the utility of board evaluations for the company needs to be better demonstrated in avoiding prolonged, ineffective office terms; for the board in becoming a better decision-making body; and even for the individual director, in gaining crucial qualifications; and (iii) to overcome the barrier of lack of know-how, board evaluation methodologies should be developed in the context of each jurisdiction and be provided to companies.”

*OECD Principles of Corporate Governance*²

The OECD Principles of Corporate Governance state that *“in order to improve board practices and the performance of its members, an increasing number of jurisdictions are encouraging companies to engage in board training and voluntary self-evaluation that meets the needs of the individual company”*. The 2003 Latin American Roundtable’s *“White Paper on Corporate Governance in Latin America”*³ provides a more direct endorsement of Board evaluations, stating that *“the boards of*

¹ OECD: *Achieving Effective Boards - A comparative study of the legal framework and board practices in Argentina, Brazil, Chile, Colombia, Mexico, Panama and Peru*, draft issued in 2010, published June 2011, OECD, Paris. Available at <http://www.oecd.org/dataoecd/56/59/48510039.pdf>

² OECD, *OECD Principles of Corporate Governance*, 2004, OECD, Paris. Available at <http://www.oecd.org/dataoecd/32/18/31557724.pdf>

³ OECD, *White Paper on Corporate Governance in Latin America*, 2003, OECD, Paris. Available at <http://www.oecd.org/dataoecd/25/2/18976210.pdf>

listed companies should undergo annual internal evaluations covering both the competencies and performance of their members as well as the board's functioning as a whole."

According to the above-mentioned White Paper, the procedures for such evaluations may be decided upon by the individual company. However, the company's statement on Board responsibilities and work procedures as well as national codes of best practices can serve as benchmarks in the Board evaluation process, with relevant sections to be made available to the public.

The report "Corporate Governance and the Financial Crisis: Conclusions and emerging good practices to enhance implementation of the Principles"⁴ published by OECD in 2010 goes further, stating that *"To promote competent boards, it is good practice for board members to have access to training programs, underpinned by periodic external Board Evaluations."*

Practical Guide to Corporate Governance⁵

The Companies Circle's "Practical Guide to Corporate Governance" launched in 2009 and based on the experiences of the Latin American Companies Circle recommends that Boards be continually developed in order to meet the growing demands and increased complexity of the business world, and to enhance the leadership and relationship skills of the group.

The Practical Guide reports that the 2006 Business Roundtable Corporate Governance Survey confirmed that 38 percent of US public companies performed Board evaluations in 2005 and that 45 percent said they were planning Board Evaluations in 2006. This represents a significant growth from the 27 percent found in the survey conducted in 2004.

Any Board's performance should be reviewed regularly, against measurable and qualitative indicators. The governance system should also establish evaluation procedures for the Board, its committees, and individual Board members.

According to the Practical Guide, many companies undertake Board evaluations in one form or another. Most often, directors do a self-evaluation on their individual performance and express their opinion about the operation of the Board as a whole. The experience of the Companies Circle member companies indicates as main results that Board evaluation:

- Contributes to performance enhancement;
- Improves interaction between directors;
- Helps identify strengths and weaknesses in Board operations; and
- Highlights areas that require improvement by directors and the Board as a whole.

Additional International Experience

The importance of Board evaluations has been increasingly recognized as a key element for building good corporate governance.

⁴OECD, *Corporate Governance and the Financial Crisis: Conclusions and emerging good practices to enhance implementation of the Principles*, 2010, OECD, Paris. Available at: <http://www.oecd.org/dataoecd/53/62/44679170.pdf>

⁵ IFC, OECD. *Practical Guide to Corporate Governance: Experiences from the Latin American Companies Circle*, pp 81-83, 2009, IFC, Washington. Available at <http://www.oecd.org/dataoecd/0/39/43653645.pdf>

In 2002, McKinsey conducted a survey⁶ that indicated that 25 percent of North American companies already performed formal Board evaluations, and 60 percent agreed that this was necessary, while 15 percent conducted formal evaluations of individual Board members, and 66 percent agreed that this was necessary. More recent evidence from the U.S. is given in a 2008 Korn/Ferry Institute study.⁷ The study found that in 2007, 45 percent of North American companies conducted Board evaluations, compared to 38 percent in 2006.

Looking beyond the U.S., a study conducted in Europe by Heidrick & Struggles⁸ reported that in 2009, 75 percent of European companies performed Board evaluations, compared to 44 percent in 2007 and 38 percent in 2005. Board evaluation is a standard in the U.K. (98 percent), Sweden (96 percent), Germany (93 percent), the Netherlands (91 percent), and Finland (90 percent), while it is still uncommon in Austria (40 percent), Belgium (25 percent), and Portugal (20 percent).

Regarding the Brazilian case, KPMG and CEG,⁹ in a 2010 study¹⁰ reported that 16.8 percent of the Brazilian Novo Mercado¹¹ companies conduct formal and periodic Board evaluations, and that 26.2 percent conduct formal and periodic Board evaluations of its individual Board members. In contrast, they reported that six percent of the Brazilian companies listed on the traditional segment conduct formal and periodic Board evaluations and 14 percent conduct formal and periodic Board evaluations of its individual Board members.

In 2010, Grant Thornton¹² highlighted how more recent recommendations are attempting to go beyond standard recommendations. For example, they state that encouraging the use of external, independent Board evaluations and the provision of detailed information on the evaluators will provide greater insight and therefore value to investors. However, they find that only 14 percent of the FTSE 350 (FTSE 100: 21 percent, Mid 250: 11 percent) undertook an external evaluation. In April 2011, ICSA issued a report¹³ consistent with the information provided by Grant Thornton (16.5 percent of the 200 companies covered by their report had undertaken an external evaluation). Interestingly, they emphasize the importance of analyzing how rigorous and objective evaluations are in cases where the companies have an existing and ongoing relationship with the consultancy firm performing the evaluation.

⁶ MCKINSEY. *Inside the Board Room: Survey on Corporate Governance*, 2002.

⁷ KORN FERRY INSTITUTE. *34th Annual Board of Directors Study*, 2008. BOSTON: Korn Ferry Institute. Available at http://www.kornferryinstitute.com/files/pdf1/Board_Study07_LoRez_FINAL.pdf

⁸ HEIDRICK & STRUGGLES. *Boards in Turbulent Times, Corporate Governance 2009 Report*, 2009. Heidrick & Struggles. Available at: <http://www.heidrick.com/PublicationsReports/PublicationsReports/CorpGovEurope2009.pdf>

⁹ CEG (Centro de Estudos em Governança Corporativa) is a Brazilian Corporate Governance Study Center.

¹⁰ KPMG ; CEG. *A governança corporativa e o mercado de capitais: um panorama das corporações brasileiras na BM&FBovespa e nas Bolsa norte-americanas*, 2010. São Paulo: KPMG.

¹¹ In 2001, BM&FBOVESPA launched its special corporate governance listing segments designed for shares issued by companies that voluntarily commit themselves to higher standards of corporate governance in addition to those already required by Brazilian law and the Brazilian Securities and Exchange Commission. The premium listing segments include Level 1, which requires additional disclosure practices. Level 2 requires everything in L1 plus an assortment of corporate governance practices to strengthen the rights of minority shareholders, such as determining a minimum acceptable price for preferred (non-voting) shares during changes of corporate control, and providing voting rights on certain major decisions of the company. Novo Mercado (New Market – NM) is similar to L2 with the additional requirement that the capital stock must be comprised solely of common (voting) shares.

¹² GRANT THORNTON. *Moving Beyond Compliance - Embracing the Spirit of the Code, Corporate Governance Review of February 2010*, 2010. London: Grant Thornton. Available at http://www.grant-thornton.co.uk/pdf/corporate_governance_2009.pdf

¹³ ICSA (THE INSTITUTE OF CHARTERED SECRETARIES AND ADMINISTRATORS). *ICSA Board Evaluation, Review of the UK Top 200 Companies 2010*, April 2011. London: ICSA.

A 2010 PricewaterhouseCoopers survey,¹⁴ which included a representative group of the most recognized British companies and was based on their 2009 Annual Reports (similar methodology to the ICSA report mentioned above), also emphasized the increased visibility and importance of Board evaluations with all stakeholders.

The importance of Board evaluations is also evident from the lessons that can be extracted from the process itself. For instance, in March 2011, the All Party Parliamentary Corporate Governance Group¹⁵ mentioned that the latest Linstock Board Development Review, looking back over 50 Board evaluations conducted during 2010, found that 62 percent of U.K. companies felt that the Board might make better use of the competencies amongst its Board members.

Ram Charan, in his book "Boards that deliver,"¹⁶ reports that performance evaluation came to be a listing requirement of the New York Stock Exchange (NYSE) in the United States, and recommends a basic guide for self-evaluation, entitled "Where does your Board stand?"

Within his three-phase Board classification, Charan affirms that Progressive Boards take self-evaluation seriously. The author recognizes the difficulty of this process, mentioning however that while appraised Board members are wary of this evaluation, receiving a positive feedback may motivate them more.

The author's recommendations:

- Perform the Board evaluation process through individual interviews conducted by a third-party interviewer—a consultant or a consulting firm—and reported directly to the Corporate Governance Committee.
- Questions posed in individual interviews should be forward-looking and lead to insights for self-improvement.
- The evaluation process—whether self-evaluation or external evaluation—should be repeated annually, allowing for gradual changes in behavior over time.

Eduardo Gusso et al. (2008), Brazilian authors specialized in corporate governance, report a number of approaches to Board evaluation in the book "Corporate Governance - A Brazilian Model."¹⁷ They refer to a Board evaluation from multiple perspectives: by Board members, by the Board Chair, and even by the CEO.

For internal Board evaluations, the authors suggest that the secretary of the Board or the Corporate Governance Officers leads the process, supported by an external consultant, within a process organized around three major topics: evaluation process of the Board itself (duration, leadership, format, etc.), scope (of what?) and effectiveness(of what?)

Martin Hilb (2008), in the book "New Corporate Governance,"¹⁸ recommends its use for the most diverse array of companies. Hilb developed two instruments for conducting Board evaluations

¹⁴ PRICEWATERHOUSECOOPERS *Corporate Governance - Best Practice Reporting*, 2010. London: PWC. Available at http://www.pwc.com/gx/en/corporate-reporting/assets/pdfs/best_practice_2009_jan_2010.pdf

¹⁵ THE ALL PARTY PARLIAMENTARY CORPORATE GOVERNANCE GROUP. *Reconnecting the Board to the Business*, 2011. London: APPCGG. Available at http://www.appcgg.co.uk/documents/reconnecting_the_board_report.pdf

¹⁶ CHARAN, Ram, *Boards that Deliver, Advancing Corporate Governance from Compliance to Competitive Advantage*, 2005. San Francisco: Jossey-Bass.

¹⁷ GUSSO, Eduardo; GIACOMETTI, Celso; Álvares, ELISMAR. *Governança Corporativa - um Modelo Brasileiro*, 2008. Rio de Janeiro: Campus.

¹⁸ HILB, Martin. *New Corporate Governance: Successful Board Management Tools*, 2008. Berlin: Springer-Verlag Berlin Heidelberg.

(both internal and external). He recommends a standard interview (in a complete or in a short version), and mentions the possibility of using a 360-degree evaluation concept: from a self-evaluation to an evaluation by senior management, then by shareholders, followed by scholars and finally by the media.

Adriana Andrade et al. (2006), in the book "Corporate Governance - Foundations, Developments and Trends,"¹⁹ highlight the attributes that should be considered in a Board evaluation, such as essential requirements, processes and results, integrity, knowledge and constructive involvement.

Finally, the topic of Board evaluations appears in a wide range of articles developed by consulting firms, associations, and entities dedicated to Corporate Governance improvement. There are many organizations and a variety of options from which individual companies in the different Latin American countries can choose from. In general, each consulting firm has developed its own questionnaire model to be applied either in-house (by the Board Secretary or the Corporate Governance Officer) or by a qualified professional.

¹⁹ ANDRADE, Adriana; ROSSETI, José P. *Governança Corporativa - Fundamentos, Desenvolvimento e Tendências*, 2006, 2nd ed., São Paulo: Editora Atlas .

Appendix 2. Sample Evaluation Questionnaire

ITEM TO EVALUATE	CG SYSTEM BEGINNERS	CG SYSTEM ADVANCED
Structure		
Diversity (Experience, knowledge, expertise, gender, age, cultures, etc.)	X	X
Adequate mix of competencies considering the specific “moment” of business and Company strategy	X	X
Appropriate number of total directors and independent members	X	X
Adequate set of Committees		X
Frequency of Board meetings	X	X
Time length in exercise of the duties and replacement		X
Dynamics and Functioning		
Topical annual calendar of the Board, which is the Board annual working program	X	X
The set of topics of Board agenda for the last year should be reviewed to consider if the Board is allocating correctly time and attention	X	X
Quality and timeliness of information provided by the Company	X	X
The directors have easy access to additional information required	X	X
Quality of the interactions and communication with CEO and executive officers	X	X
Clear and formal processes to guarantee independence and mitigate conflicts of interests	X	X
Contribution of the Committees and reporting by Committee Chairs		X
Involvement of Board members in setting the topical calendar and meeting agenda		X
The meeting agenda is covered as planned and time keeping is a concern of		

all directors	X	X
The participation of directors is balanced	X	X
The environment welcomes constructive discussion and the expression of different opinions	X	X
The minutes are clear and released right after the meeting	X	X
Business Strategy Governance		
Board annual work program guarantees that the Board has enough time to discuss appropriately the long-term strategy and assuring balance between short and mid-term targets		X
Assignment of proper time to discuss development of human capital and personnel decisions as key elements for strategy		X
Social/environmental/sustainability considerations and key elements and forces in the definition of the Company's strategy and new businesses, positive and negative impacts on the Company		X
Ensure the strategy is consistent with the risk tolerance approved by the Board		X
Monitoring Role		
Monitoring the implementation of strategy tracking the key indicators	X	X
Proper tracking of the company and executives performances, assuring that the performance is benchmarked against market peers		X
Tracking of outstanding issues	X	X
Ensure that there is a Succession Plan, including development, for main executives	X	X
Ensure a proper risk policy and its monitoring;		X
Review compensation policies and programs considering its alignment to the company's strategy and market standards		X
Be the guardian of quality/efficacy of the auditing system, including internal controls	X	X
Ensure proper risk governance and management		X
Supporting and Advice Role		
Give proper feedback to the CEO and executive officers	X	X

Orient and guide the CEO and executive officers	X	X
Contribute to the Company in facilitating access to resources, including alliances and contacts	X	X
Individual Characteristics of the Directors		
Strategic vision	X	X
Ability to work in a team	X	X
Time availability	X	X
Commitment	X	X
Assertiveness and ability to make tough questions and defend his/her ideas in all circumstances	X	X
Adequate advanced preparation for Board meetings	X	X
Corporate Governance knowledge	X	X
Knowledge and alignment to the values and culture of the Company	X	X
Intellectual independence	X	X
Ability to deal with different points of view to reach a conclusion/consensus	X	X
Understanding of the business sector	X	X
Contribution to the group/value added	X	X
Communication abilities	X	X
Continuous self education and development	X	X
The Chairperson Role		
Leadership	X	X
Commitment with the well functioning of the Board	X	X
Independence and ability to align interest in order to reach a consensus	X	X
Constructive relationship with the Committees' coordinators and guidance to CEO	X	X
Consider all Stakeholders interests	X	X
Ability to coordinate group discussions and dynamics	X	X

The Board Secretary and Committees' Role		
Proactivity		X
Impartiality		X
Discretion		X
Knowledge of the organization		X
Sense of organization		X
Communication ability		X
Knowledge of corporate governance and main legal and regulatory aspects concerning Board activities		X