Board Performance Evaluation

Way forward to superior board efficiency
Benchmarking - Initial insights
Board performance evaluations should be based on a comparison with relevant peers

- The meeting frequency ranges from 4 to 13 meetings a year (independent of board size)
- Top10 boards meet 9 times on average per year
- 42% of the DAX and 36% of the MDAX companies conduct additional strategy workshops

Efficient monitoring demands high meeting frequency and active committees - how do you assess your performance in comparison to the peer group?

1 excluding mediation committees  
Source: Aufsichtsrats-Score 2015
Content

1. diep-methodology for board performance evaluation

2. Board best practices

3. About us
Board Performance Evaluation - Objectives
Beyond compliance a professional board evaluation supports the implementation of best practices in board composition and procedures

1. Ensuring Compliance
2. Reduction of liability and reputation risk
3. Fulfill expectations of investors and rating agencies
4. Identification of potential improvement needs and implementation of benchmarks and board best practices
5. Basis for a structured succession planning of board members
6. Strengthening collaboration and discussion culture within the board

„Boards should regularly carry out evaluations to appraise their performance and assess whether they possess the right mix of background and competences.”¹

External board performance evaluation has been established as a standard of good corporate governance

¹ G20/OECD Principles of Corporate Governance No. VI.E.4; analogously implemented in national Corporate Governance Codes, e.g.: German Corporate Governance Code No. 5.6; UK Corporate Governance Code No. B.6, Dutch Corporate Governance Code No. III.1.7, The X Principles of Corporate Governance of the Luxembourg Stock Exchange Principle 6
Board Performance Evaluation - Dimensions
Performing a structured evaluation requires detailing the approach in four dimensions

<table>
<thead>
<tr>
<th>1. Frequency of evaluation</th>
<th>4. Resources</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yearly</td>
<td>Internal</td>
</tr>
<tr>
<td>Every two years</td>
<td>Independent external advisor</td>
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<tr>
<td>Irregularly</td>
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</tbody>
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<table>
<thead>
<tr>
<th>2. Level of evaluation</th>
<th>3. Instruments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Entire board</td>
<td>Desk research of relevant documents</td>
</tr>
<tr>
<td>Committees</td>
<td>Questionnaire</td>
</tr>
<tr>
<td>Board members</td>
<td>Interviews</td>
</tr>
<tr>
<td></td>
<td>Observations</td>
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Based on a strategic evaluation approach, frequency, level and methods of evaluation should vary each year - adopt to specific board requirements
**diep-methodology - Modular approach**
Our modular approach provides flexibility to reflect specific requirements of the board

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### Scenario 1
**Evaluation „light“**

- **Questionnaire**
- **Documentation of evaluation results**

- **Additional instruments possible**

- Survey board members based on a standardized questionnaire (to be answered by each board member individually)
- Analysis and documentation of results
- Discussion of key results in a board meeting

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### Scenario 2
**Evaluation „intensive“**

- **Desk research**
- **Questionnaire**
- **Interviews**
- **Documentation of evaluation results**
- **Presentation and discussion of results**

(additionally)

- Desk research of relevant documents (by-laws, minutes, board pack)
- Structured interviews with board members to validate questionnaire results
- Presentation and discussion of results within a board meeting for identification of improvement needs and measures

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**Customized approach to be determined between diep and chairman of the board**
**diep-methodology - Evaluation criteria and dimensions**

Our methodology provides comparison with relevant compliance criteria as well as a comprehensive benchmark assessment.

<table>
<thead>
<tr>
<th>Evaluation criteria</th>
<th>Evaluation dimensions</th>
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<tbody>
<tr>
<td>Compliance</td>
<td>Organization</td>
</tr>
<tr>
<td>▪ Relevant corporate law and codices</td>
<td></td>
</tr>
<tr>
<td>▪ If needed by-laws and company charters</td>
<td></td>
</tr>
<tr>
<td>▶ Compliance check</td>
<td>Formal set-up of board procedures</td>
</tr>
<tr>
<td>Best Practice</td>
<td>Operation of the board</td>
</tr>
<tr>
<td>▪ Comparison with relevant benchmarks and best practices of supervisory boards</td>
<td></td>
</tr>
<tr>
<td>▪ Current research</td>
<td>Board activities and performance, contribution of the board to strategic goals, discussion culture</td>
</tr>
<tr>
<td>▶ Benchmark check</td>
<td>Staffing and remuneration of the board</td>
</tr>
<tr>
<td></td>
<td>Evaluation of committees by board and committee members</td>
</tr>
<tr>
<td></td>
<td>Staffing and operation of committees</td>
</tr>
<tr>
<td></td>
<td>Documents, reports and information supply for board members</td>
</tr>
<tr>
<td></td>
<td>Board information</td>
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</tbody>
</table>

If requested, evaluation of the supervisory board is supplemented with an evaluation of the management board members.
Board Performance Evaluation - Success factors
Based on our broad experience six key success factors have been identified

- **Independence** and **acceptance** of the external facilitator
- **Sophisticated** and **company specific** questionnaire
- **Modular** approach
- **Efficiency** and **proficiency** of the evaluation process
- Use of **Best Practices** and **Benchmarks**
- **Openness** of participants
Board Performance Evaluation - Feedback cycle
Regular board evaluation provides a trigger for continuous improvement of board efficiency
Content

1. diep-methodology for board performance evaluation
2. Board best practices
3. About us
Research study “Aufsichtsrats-Score” – Best practices
Professional activities in supervisory boards demand answers to core questions in four dimensions - Best practices derived from research study “Aufsichtsrats-Score”¹

1. Structure & procedures
Does the supervisory board entail an efficient organization with intense, ongoing monitoring processes which allow for open and constructive discussions?

2. Suitability
Is the independent, competent monitoring of the management board assured and are the members of the supervisory board able to allocate sufficient time to their mandate?

3. Diversity
Does the supervisory board consist of a balanced set of diverse biographies, such that undesired group phenomena can effectively be counteracted?

4. Transparency
Are stockholders capable of conducting a thorough valuation of the members, as well as the operating methods and operability of the entire supervisory board?

¹ Research study “Aufsichtsrats-Score” is conducted yearly based on publicly available information of DAX- und MDAX-companies
Best Practices – Structure and procedures
The operating method of the board and its committees should allow a continuous monitoring that is intense and independent from the management board.

Meetings of the supervisory board

- The supervisory board holds at least six to eight meetings a year.
- The meetings regularly incorporate executive sessions without the management board.
- One meeting of the supervisory board serves the intensive discussion of the company’s strategy. (if possible strategy workshop over one or multiple days)

Committees

- The supervisory board features an audit and a nomination committee.
- Depending on the size, as well as the complexity and riskiness of the underlying business, additional committees exist (e.g. technology, strategy, compliance/risk).
- If necessary, the supervisory board sets up ad-hoc committees to temporarily accompany specific topics.
- The committees usually meet three to four times a year.
- The chairman of the supervisory board is not also the chairman of the audit committee.
- The chairman of the supervisory board is not also the chairman of all the other committees.

Source: Aufsichtsrats-Score 2015
Best Practices – Composition
The supervisory board’s composition should be competent, independent and diverse – further training and efficiency reviews assure the panel’s functionality

### Independence and availability of the supervisory board members

- The **Cooling-Off-Period** has been considered, when changing from management to supervisory board.
- The **chairman of the supervisory board** is *not* the former CEO.
- At least **75%** of the shareholder representatives are **independent**.
- The supervisory board’s members have **sufficient time** to execute their mandate (e.g. less than five mandates, chairman is not an active member of a management board).

### Diversity

- The **quota of females** in the supervisory board amounts to at least **30%**.
- The **quota of foreign members** in the supervisory board amounts to at least **20%**.

### Further training

- New members of the board receive support with the adaption of the mandate (**Onboarding**).
- The supervisory board assesses its operating methods and composition annually through a structured and intensive **efficiency review**.
- The company regularly carries out **training events** for the members of the supervisory board.

Source: Aufsichtsrats-Score 2015
Best Practices – Transparency
A high level of transparency reduces asymmetric information and therefore might impact the risk assessment of investors

Transparency

- The company publishes a list of requirements for the supervisory board.
- Nominations for the supervisory board are explained by the company.
- A detailed resume is provided for new nominees.
- The company publishes the procedure and results of the efficiency review.
- The remuneration is shown for each member individually.
- The company shows the age of the supervisory board's members.
- The participation in board and committee meetings is published for each member individually.
- The supervisory board's report enables the addressee to comprehend the discussion and decision processes within the entire board, as well as its committees.

The best practices established provide the supervisory board with guidance in embellishing its activities – justified deviations should be explained and made transparent to the shareholders

Source: Aufsichtsrats-Score 2015
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diep - Value added

diep is the only German consulting firm with a focus on board performance evaluation.

- **Focused**
  Competence center for all aspects concerning the efficiency audit of supervisory boards

- **Independent and objective**
  Owner-managed with a focused set of services to eliminate the risk of conflict of interest

- **Scientifically sound**
  Regular studies, publications and scientifically sound methods

- **Partnership**
  Trusting and long-term companionship of businesses

„The evaluation process as well as the presentation in the board meeting were extremely compelling and really helpful for us.“

Eugen Münch
Founder and chairman of the board of Rhön-Klinikum AG

https://www.diep-institut.de/institut/referenzen/
diep - Value added
Board performance evaluations are facilitated by Peter Ruhwedel who has nearly 20 years of experience in the field of corporate governance research and consulting.

Prof. Dr. Peter Ruhwedel
Managing Director

- Founder and Managing Director diep - Deutsches Institut für Effizienzprüfung GmbH
- Professor of Strategy & Organization, Scientific Director KCU Competence Center for Management & Corporate Governance, FOM University of applied sciences
- Member of the supervisory board of GBB-Rating Gesellschaft für Bonitätsbeurteilung mbH
- Over ten years of experience as a management consultant with leading international consulting firms, most recently as a partner of Oliver Wyman

„Professor Ruhwedel is distinguished by a high level of professionalism, expertise, commitment and integrity.“

Astrid Hamker, lic. oec. HSG
Shareholder Piepenbrock Group and board member
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