

2021 Disclosures : A Leap Ahead

CIMPLYFIVE'S

REPORT ON CORPORATE BOARD EVALUATION PRACTICES, 2021



A study of Nifty50 Companies



2021

2020

2015

JAN 2022

Team



Disclaimer and Limitations of the Study

- **General Information:** CimplifyFive has prepared the Report on Corporate Board Evaluation Practices, 2021 to identify the practices of Nifty 50 Companies, with the intent of formulating a model disclosure for use by Listed Companies. This report is not intended to act as a recommendation or condemnation of any practice, company or firm covered in this report.
- **Risk Warning:** CimplifyFive shall not be responsible for any loss or damage arising for anyone using any information contained in this report.
- **Source of Information:** CimplifyFive has used the information contained in the websites/Annual Reports of the Company.
- **Limitations:** Competent professionals with adequate experience have undertaken this study. Further, they have also followed a due process of checks and verifications to ensure accuracy of this report. This should have eliminated almost all errors from this report. If any points in the nature of errors are brought to our notice and we agree with the same, CimplifyFive will rectify the report at the earliest and have the revised report available on its website. CimplifyFive does not accept any loss or damage caused to any individual or institution by use of this report.

NIFTY 50 Companies

1. Adani Ports and Special Economic Zone Ltd	11. Coal India Ltd	21. Hindalco Industries Ltd	31. Mahindra & Mahindra Ltd	41. Sun Pharmaceuticals Industries Ltd
2. Asian Paints Ltd	12. Divis Laboratories Limited	22. Hindustan Unilever Ltd	32. Maruti Suzuki India Ltd	42. Tata Consultancy Services Ltd
3. Axis Bank Ltd	13. Dr. Reddy's Laboratories Ltd	23. ICICI Bank Ltd	33. Nestle India Limited	43. Tata Consumers Ltd
4. Bajaj Auto Ltd	14. Eicher Motor Ltd	24. Indian Oil Corp Ltd	34. NTPC Ltd	44. Tata Motors Ltd
5. Bajaj Finance Ltd	15. Grasim Industries Ltd	25. IndusInd Bank Ltd	35. Oil & Natural Gas Corp Ltd	45. Tata Steel Ltd
6. Bajaj Finserv Ltd	16. HCL Technologies Ltd	26. Infosys Ltd	36. Power Grid Corp of India Ltd	46. Tech Mahindra Ltd
7. Bharat Petroleum Corp Ltd	17. HDFC Bank Ltd	27. ITC Ltd	37. Reliance Industries Ltd	47. Titan Co Ltd
8. Bharti Airtel Ltd	18. HDFC Life Ltd	28. JSW Steel Ltd	38. SBI Life Limited	48. UltraTech Cement Ltd
9. Britannia Industries Ltd	19. Housing Development Finance Corp Ltd	29. Kotak Mahindra Bank Ltd	39. Shree Cement Limited	49. UPL Ltd
10. Cipla Ltd	20. Hero MotoCorp Ltd	30. Larsen & Turbo Ltd	40. State Bank of India Limited	50. Wipro Ltd

About CimpfyFive

CimpfyFive Corporate Secretarial Services Private Limited is a pioneer in offering research and technology-based solutions for compliance with the Companies Act, 2013 and LODR, 2015. Our SaaS based product portfolio, Board Leaders Integrated Software Solution (BLISS) and its variants, is designed to eliminate the procedural non-compliance risk for entities regulated under the Indian Companies Act, 2013 and LODR, 2015. CimpfyBest our newly launched SaaS product is custom built to meet the Board Evaluation requirements of India corporates by fusing the legal requirements with global best practices. More details about CimpfyFive and its product BLISS can be obtained from our website www.cimpfyfive.com.

CimpfyFive also provides a free to use website called CAIRR (<https://ca2013.com/>) that provides the Company law integrated with SEBI regulations – LODR, Prohibition of Insider Trading, Takeover Code and IB Code, at your fingertips. This site which is updated every business day at 11 AM uses hypertext to integrate rules, notifications, orders and circulars with the Act and provides real time, online access to the Companies Act as it stands on that day.

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Automation of Secretarial Compliance

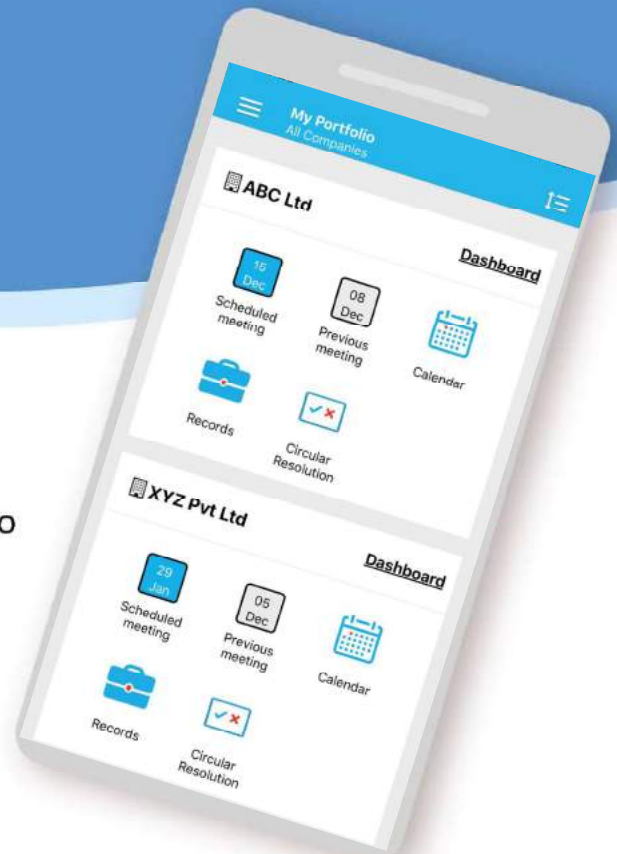


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CimplifyFive's Board Evaluation Report 2021

Substantial Progress in Indian Corporate Board Evaluation Practices

Editorial

Dear Readers,

'The basis for all progress is willingness to question the status-quo.'

Looking at the disclosures made by the Nifty 50 companies in 2021 on board evaluation, the signal is loud and clear that Indian corporates have made substantial progress on this front. The quantum and the quality of change indicates the desire to improve, where we see several companies shift from the ritualistic, mandated Board Evaluation tick-box approach to a substance based exercise.

The Companies Act, 2013 for the first time in India, required all listed companies, and public companies with paid-up capital of Rs.25 crores or more to annually evaluate their board performance and disclose it in their Boards Report to Shareholders. Consequently, Board Reports from 2015 have disclosed board evaluation practices in India. In May 2016, CimplifyFive published its first report on this topic, followed by another in 2021 based on 2020 disclosures. This is the third report in this series.

In our first Report in May 2016, we developed a proprietary Five-Star Rating System for evaluating the quality of Board Evaluations practices disclosed. Using the same rating system, we have evaluated the disclosures made by the companies in their 2021 annual reports. This provides us historical data to track and report the progress made by the companies.

The constituents of the Nifty 50 Index have changed between our 2020 and 2021 report, with the exit of four companies-Bharti Infratel, Gail, Vedanta and Zee, who were replaced by DivisLab, HDFC Life, SBI Life and Tata Consumer. To this extent, the comparison between the 2020 results used in this report differs from results published in our 2020 report.

To sum up in one sentence, our study shows that Indian corporates have not only made substantial progress in board evaluation practices as evidenced by their disclosures, but some of the companies have disclosure practices that match those of Global Leaders.

This study is undertaken by CimplifyFive Corporate Secretarial Services Private Limited, a company with the vision to 'leverage research and technology to eliminate procedural noncompliance by entities regulated by the Companies Act, 2013', with the objective of promoting better governance and disclosures through data based research. We look forward to receiving your feedback to enrich this study at contact@cimplifyfive.com.

Shankar Jaganathan
Founder & Chief Executive
CimplifyFive Corporate Secretarial Services Private Limited
January 06, 2022

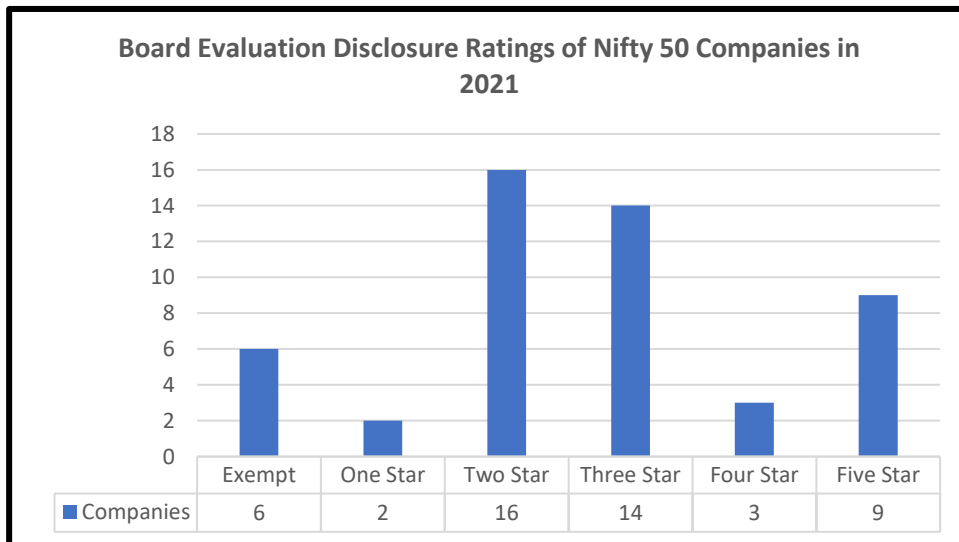
1. Findings of Board Evaluation Practice in 2021

We analysed the disclosures made by the Nifty50 companies using our proprietary Five-Star rating system. This system considers disclosures made of the five elements of Corporate Board Evaluation-Criteria considered, Process followed, Favourable outcome, Improvement areas, and Action Plan for addressing deficiencies.

We assign one star for each of the parameter disclosed by the company and a company that has disclosed all the five parameters is assigned Five-stars.

1.1 All the 44 private sector companies have reported their Corporate Board Evaluation practices in their Annual Report. The remaining 6 companies in the Index are exempt from disclosing their Board Evaluation practices due to their status as a public sector company.

Graph 1.1-Board Evaluation Disclosures in 2021



Based on our Five-Star Rating system, 9 companies have made the highest level disclosure to get a Five-Star rating. In addition to the parameters disclosed, the quality of disclosures by some of these companies are exemplary and comparable to the global best in class disclosures as highlighted in chapter 3 of this report.

1.2 The length of disclosures indicates their importance. Looked at from this angle, the average length of board evaluation practice disclosures made by the Nifty 50 companies was 319 words, with the longest disclosure of 1040 words and the shortest disclosure of 68 words.

1.3 While quality cannot be presumed with quantity, the nine companies with Five-Star ratings had a disclosure length of 517 words with the longest being 1040 words and the shortest of 248. In contrast, companies with One-Star rating had an average disclosure length of 233 words with the highest being 306 words and the shortest being 161 words.

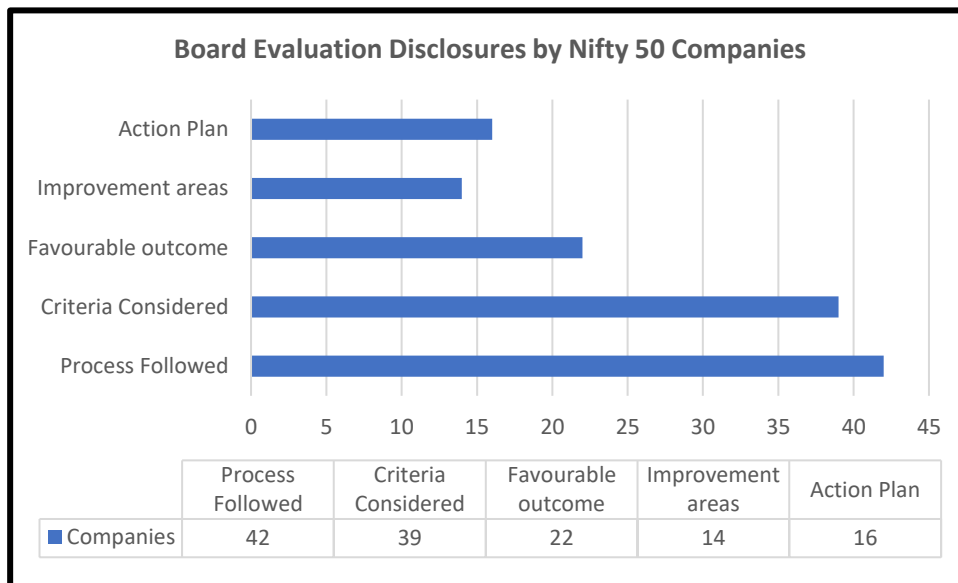
1.4 The six public Sector companies had an average disclosure length of 166 words, with the longest being 304 words and the shortest at 68 words.

Table 1-Length of Board Evaluation Disclosures by Nifty 50 Companies

Class of Companies	Average Length	Shortest	Longest
All Nifty 50 companies	319	68	1040
Five-Star Companies	517	248	1040
One-Star Companies	233	161	306
Public Sector Companies	166	68	304

1.5 44 companies had disclosed information on 133 parameters in their Corporate Board Evaluation disclosures as detailed in Graph 1.2.

Graph 1.2-Board Evaluation Parameters Disclosed in 2021



Process followed was the most common disclosure made, with Criteria considered coming in right behind. Further, 22 companies reported favourable outcomes from the board evaluation, while only 14 companies reported improvement areas, with 16 companies disclosing their action plan for implementing the improvement areas. In a few cases, companies disclosed their intent to act on the findings of the Board Evaluation without disclosing the improvement areas identified.

1.6 7 companies, 16% of the population have disclosed using a digital Online Survey Tool to ensure anonymity of response and a free and fair evaluation process.

The rationale for use of technology is clearly spelt out by some of the companies,

The consultant’s IT platform was used from initiation till conclusion of the entire board evaluation process. This ensured that the process was transparent and independent of involvement of the Management or the Company’s IT system.

Annual Report 2021, Larsen & Turbo Limited

1.7 Though not mandated by law in India, 14 companies (32% of the companies) have disclosed using an external consultant for facilitating their Corporate Board Evaluation process.

The rationale for use of external consultants and scope of their work was spelt out by some of the companies,

Company had appointed an External Facilitator for the purpose of carrying out the performance evaluation in a fair and transparent manner

Shree Cements Limited

A reputed HR Consultant Firm compiled and provided analysis of the results of the annual performance evaluation.

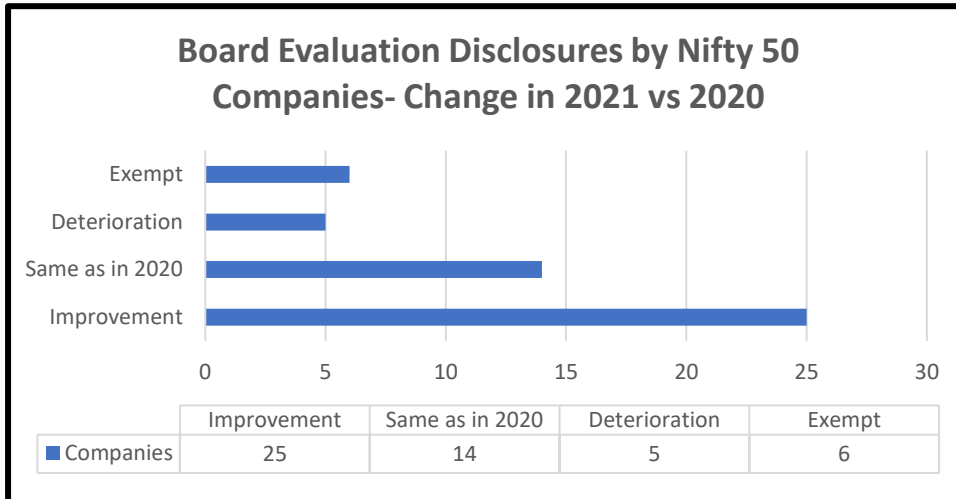
Nestle India Limited

1.8 The use of external consultants by 14 companies and digital tools by 7 companies, reflect the intent of the Boards for serious introspection and improvement in the effectiveness of the Board, which is visible in all around improvement to the quality of disclosures.

2. Progress in Corporate Board Evaluation Practices between 2020 and 2021

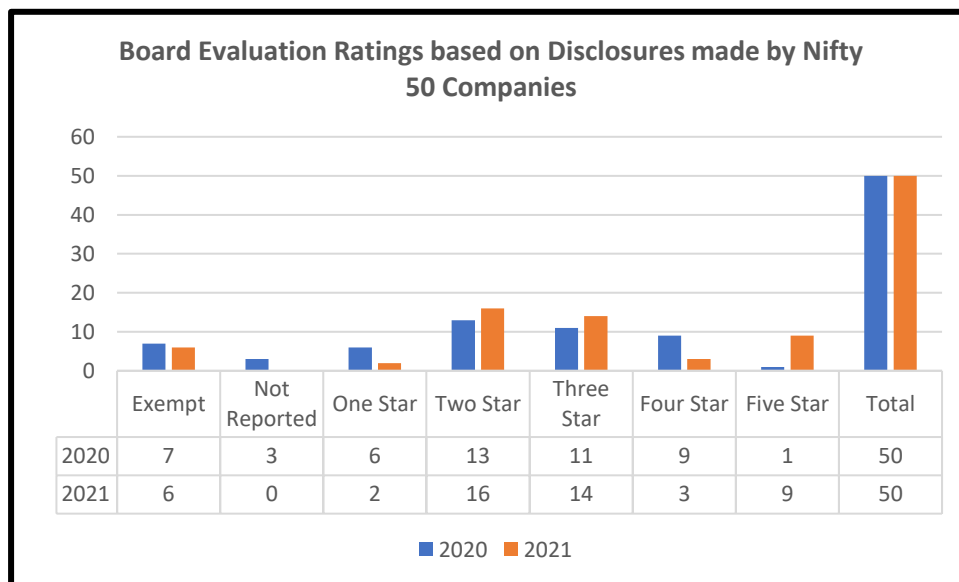
2.1 Comparing the Corporate Board Evaluation practices disclosed in the last two years, we find that 50%, 25 companies had improved levels of disclosures, 40%, 20 companies had the same level of disclosure and only in 10%, 5 companies, it was lower than in 2020.

Table 2.1 -Change in Board Evaluation Practice between 2020 and 2021



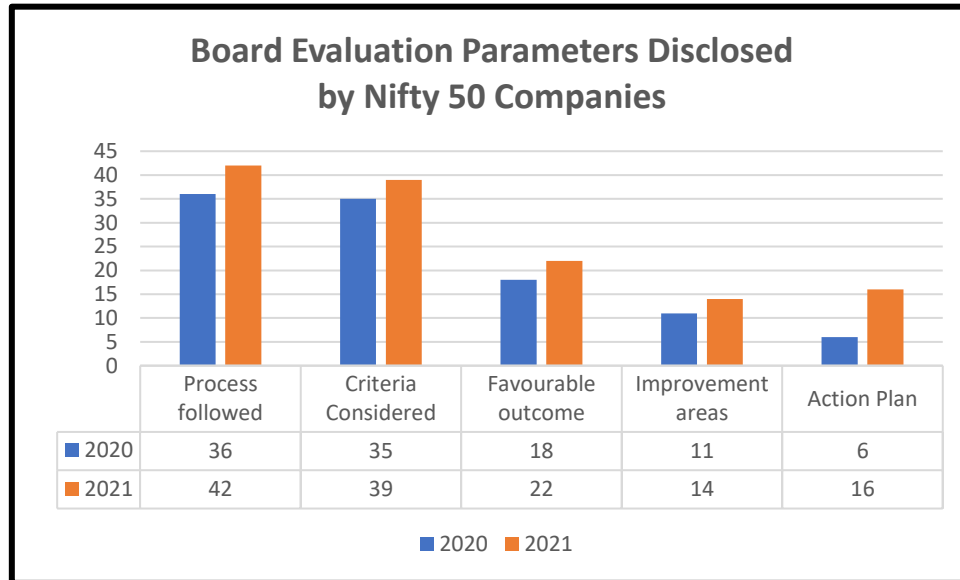
2.2 The improvement in disclosures in 2021 is most visible at the highest level of disclosures of Five-Star Rated companies that increased from 1 to 9 within one year. The second largest increase is seen in Two-Star rated companies from 13 to 16 and Three-Star rating from 11 to 14..

Table 2.2 -Change in Star Ratings of Nifty50 Companies in 2021 from 2021



2.3 Rating parameters tabulated in Table 2.3, indicate improvement in disclosures across all the five parameters, with the most significant one being disclosures on the Action Plan for improvement areas identified which increased from 6 to 16 companies. While the intent to improve was expressed, information on elements of improvement was inadequate in many companies.

Table 2.3 -Change in Parameters Disclosed in Corporate Board Evaluation Practice between 2020 and 2021



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3. Extracts of Exemplary Disclosures on Corporate Board Evaluation Practices

a. Objective of Corporate Board Evaluation

Capturing the intrinsic value of Corporate Board Evaluations by going beyond the mandatory requirement for undertaking board evaluation.

The purpose of the Board evaluation is to achieve persistent and consistent improvement in the governance of the Company at the Board level with the participation of all concerned in an environment of harmony. The Board acknowledges its intention to establish and follow “best practices” in Board governance in order to fulfil its fiduciary obligation to the Company. The Board believes the evaluation will lead to a closer working relationship among Board members, greater efficiency in the use of the Board’s time, and increased effectiveness of the Board as a governing body.

Annual Report 2021, JSW Steel Limited,

b. Process Followed:

Detailed description of the process followed in the Board Evaluation process.

In compliance with the provisions of the Companies Act, 2013, the Listing Regulations, guidance note issued by SEBI on board evaluation and global best practices, the HR and Nomination Committee, in its meeting held on February 3, 2021, deliberated and approved the structured process, format, attributes, criteria and questionnaires as a whole, for the performance evaluation of the Board, Board Committees and Individual Directors including the Chairman and MD & CEO (India and South Asia), keeping in view the board priorities and best practices. Practice of holding quarterly meetings of Independent Directors’ followed by the Company much before the requirement of having at least one exclusive meeting of Independent Directors was statutorily prescribed. The process provides that the performance evaluation shall be carried out on an annual basis. During the year, the Directors completed the evaluation process, which included evaluation of the Board as a whole, Board Committees and individual Directors including the Chairman and the MD & CEO (India and South Asia). To ensure confidentiality, the evaluation process was facilitated online by a leading independent consulting firm. The consolidated reports on outcome were submitted by the consulting firm to the Board through the Company Secretary. All Directors participated in the performance evaluation process. The results of evaluation were discussed in the Independent Director’s meeting held on May 16, 2021 followed by respective Committee meetings and Board Meeting held on May 17, 2021.

Annual Report 2021, Bharti Airtel Limited

c. Criteria used in Board Evaluation

Theme based parameters

Board effectiveness assessment questionnaire was developed by advisory firm keeping in mind the various parameters. Virtual Meetings were organized with members of the Board and discussions were held on six themes i.e. strategic perspective, competency and capability, ESG focus, diversity and inclusion, risk and compliance culture, and communication.

Annual Report 2021, Adani Ports Limited

Detailing the parameters

The Chairman, Executive Vice-Chairperson, MD & GCEO and the independent directors were evaluated on certain additional parameters. The criteria for performance evaluation included the following:

- The Board – Structure, composition of the Board, board meeting schedule, agenda and collaterals, board meeting practices and overall effectiveness of the Board. Board committees – Composition, role and responsibilities, information flow and effectiveness of the meetings, effectiveness of committee chairpersons, etc.
- Individual directors – Attendance, preparedness for discussion, quality of contribution, engagement with fellow board members, KMPs and senior management, etc.
- The Chairman – Leadership of the Board, promoting effective participation of all board members in the decision-making process, etc.
- Independent directors – Independence from the Company, exercising independent judgement in decision-making, contributing strongly and objectively to the Board deliberations based on their external expertise, etc.
- Executive Vice-Chairperson – Managing and communicating with shareholders, Board, Management and employees, leading the Board effectively in developing and delivering the Company's strategy and business plans.
- MD & GCEO – Additionally evaluated against the scorecard approved at the beginning of the financial year, which, inter alia, included both, long-term and short-term, as well as financial and non-financial parameters. The financial parameters included targets on revenue, EBITDA, ROIC, etc. while the non-financial parameters covered areas such as strategy and portfolio, organisational capability-building, succession planning, business growth and operations, quality and safety, business reimagination, etc.

Annual Report 2021, Cipla Limited

d. Disclosure of Favourable Findings of Board Evaluation

The review findings recognized the functional expertise of the Board members, functioning of the key Committees, Board's detail-oriented approach and effectiveness of Board's oversight on critical matters. The culture of cohesiveness, integrity, trust and transparent decision-making at the Board was also noted.

Annual Report 2021, HDFC Bank Limited

As an outcome of the above exercise, it was noted that the Board as a whole is functioning as a cohesive body which is well engaged with different perspectives. The Board has a right balance of discussion between strategic and operational issues. The Board Members from different backgrounds bring about different complementarities and deliberations in the Board and Committee Meetings are enriched by such diversity and complementarities.

Annual Report 2021, Hindustan Unilever Limited

e. Improvement Areas Disclosures

The following 5 observations emanated from the Board performance evaluation for the Financial Year 2020-21:

- (i) Continuing Education and Learning Programs for the Board Members.
- (ii) Chairperson's one to one dialogue to seek feedback from individual Board Members towards raising the bar of collective board performance.
- (iii) To increase the number of Independent Directors meetings.
- (iv) Each Committee to identify the key themes for the year which need to be covered in a planned manner. This should help keep focus on important items in addition to routine agenda.
- (v) A systematic approach to sharing action taken reports of the Board and effective reporting of proceedings and deliberations at the Board Committees, to the Board as a whole.

Annual Report 2020-21, Axis Bank Limited

f. Disclosure of Action Plan for Addressing Deficiencies

Proposed actions based on current year observations: The Bank has accepted all the observations made by the Board emanating from the Board performance evaluation for the Financial Year 2020-21. The status of compliance with the said observations will be reviewed by the NRC and by the Board.

Annual Report 2020-21, Axis Bank Limited

g. Disclosure of Progress Against Earlier Years Action Plan

Previous year's observations and actions taken:

4 observations had emanated from the Board performance evaluation for the Financial Year 2019-20. These mainly relate to sharpening of Board agenda, functioning of Committees, continued expertise building among board members and board diversity and skills.

The Bank has complied with the said observation, which was also reviewed by the NRC and the Board.

Annual Report 2020-21, Axis Bank Limited

4. Top 5 Learnings from the Corporate Board Evaluation Practices 2021 Study

i. Continued progress in 2021 disclosures over 2020

Measured both quantitatively and qualitatively, Nifty 50 companies have made significant progress from 2020 to 2021.

- Number of parameters reported by the companies increased from 106 to 133, i.e., 25%
- We have 9 companies with Five-Star disclosures, i.e., disclosing all the five elements of board evaluation, a growth from 1 company to 9 companies in just one year.

ii. Enhanced focus on End-objective of Corporate Board Evaluation

The objective of Corporate Board Evaluation is to identify areas for improvement and prepare and implement an action plan for redressing it

- 14 companies, or more than a quarter of the population have disclosed improvement areas identified through the Corporate Board Evaluation Process
- 16 companies have disclosed their intent to implement action plan to redress the improvement areas identified, though in many cases the areas for improvement are not disclosed.

iii. Increased Use of External Consultants for Corporate Board Evaluation

Corporate Board Evaluation requires time, effort and access to database of information and defining practices for effective benchmarking. Considering the apex position of board and the potential for enhancing board effectiveness, increased use of external consultants is a positive trend that helped companies fare significantly better in Board evaluation disclosures.

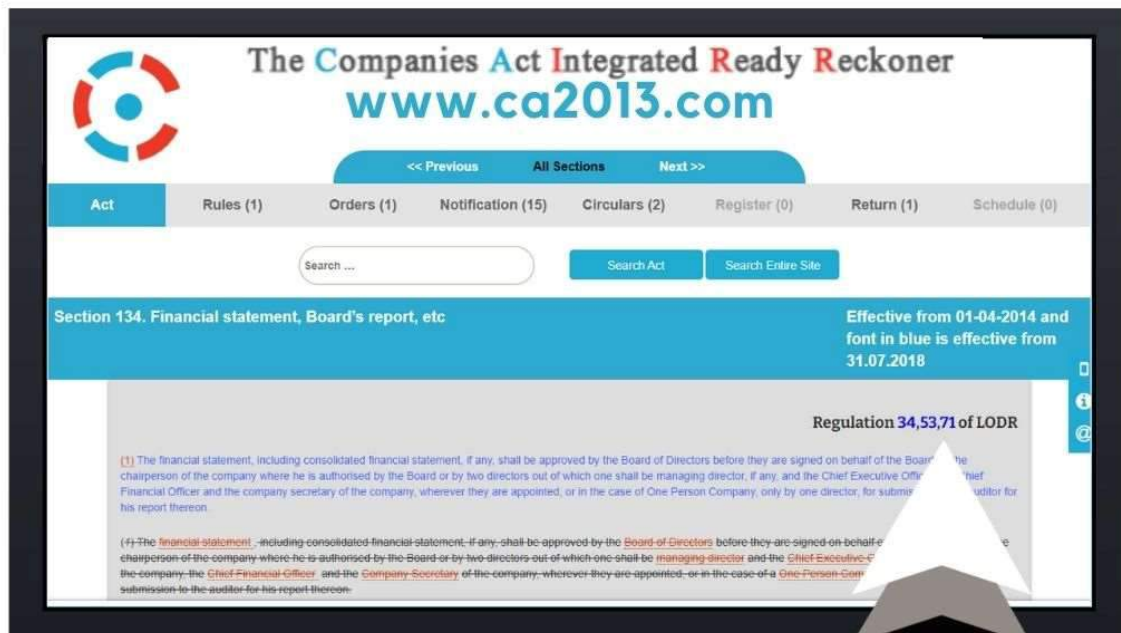
- 14 companies, or more than a quarter of the population analysed used external consultants for corporate board evaluation.
- For companies that used an external consultant, 4 had Five-Star disclosures, 2 had Four-Star disclosures, 5 had Three-Star disclosures, 2 had Two-Star disclosures and 1 company had One-Star rating disclosure.

iv. Technology used for Free and Fair Corporate Board Evaluation

Use of automated survey tools that provide anonymity to the respondents is a critical element in ensuring free and fair responses. The improvement areas so identified can significantly enhance board effectiveness and promote good governance. Technology can be leveraged to automate the entire process starting from circulation of the survey questionnaires to final reports that can be directly presented to the Board for its consideration, while maintaining anonymity of responses.

- 71% or 5 of the 7 companies using technology tools for their board evaluation process identified improvement areas, in contrast to 35% of Nifty50 companies. To quote one company 'The consultant's IT platform was used from initiation till conclusion of the entire board evaluation process. This ensured that the process was transparent and independent of involvement of the Management or the Company's IT system.'

- v. **Indian mandate requires a minimum of eight to ten evaluations every year consisting of the Board, five mandated committees, the Chairperson, and a minimum of three independent directors. Considering the effort required, spreading out calendar for board evaluation over two meetings during the year: one for the board & sub-committees, and the second for chairperson & directors would significantly enhance the board effectiveness.**



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5. CimplifyFive's Model Disclosures for Indian Corporates on Corporate Board Evaluation

Objective

The disclosure should start with the Objective which contains a statement on the intrinsic value derived by the company from the Board Evaluation process and how it aids the company in assessing the effectiveness and efficiency of the Board and its directors. In addition, the objective would also contain a statement that all the legal requirements are complied with.

Annual Board Evaluation is a key element of our corporate governance process that targets areas for improvement to enhance the Board and Sub-committee's effectiveness and efficiency and provide constructive feedback to the Chairperson and board members.

Our Corporate Board Evaluation policy and practice also complies with all the mandatory requirements of the Companies Act, 2013 and the SEBI's LODR, 2015.

We measure the effectiveness of our Annual Board Evaluation by identifying areas of focus for improvement and developing timebound and actionable plans for implementing improvements identified.

Process

The process should contain the sequence of events that formed the part of the Board Evaluation process for the year along with the evaluation methodology, dates when the scheduled meetings were held and a brief gist of the proceeding.

The Nomination & Remuneration Committee of the Board met on dd-mm-yyyy to define and recommend the recommend criteria to be used for the year in evaluation of the Board, its sub-committees, the Chairperson and the directors based on the Corporate Board Evaluation Policy approved by the Board on dd-mm-yyyy. The committee in its meeting also recommended the following:

- Calendar for board evaluation
- Software to be used for evaluation, and
- the external consultant for facilitating the exercise.

The Board in its meeting held on dd-mm-yyyy accepted the recommendation of the NRC committee and initiated the board evaluation exercise, which was carried on between dd-mm to dd-mm.

During the process, the Independent Directors in their meeting held on dd-mm-yyyy based the criteria recommended by NRC evaluated the Chairperson and Executive directors.

<External Consultant> appointed to facilitate Board Evaluation, summarised the findings of the exercise and provided additional details and context where required for a constructive deliberation.

<Software> was used to administer the questionnaire that provided end to end automation which is essential for ensuring a free and frank disclosures can be obtained from the Directors.

The Board of directors received the report of Corporate Board Evaluation and deliberate the findings in their meeting held on dd-mm-yyyy. Subsequent to the discussion, the Board approved finding of the evaluation exercise to be disclosed in the Board's Report.

Criteria

The critical parameters used in the Board Evaluation Process should be tabulated under each distinct segment of evaluation, with emphasis on new criteria added or removed during the year.

Criteria considered in Board Evaluation for the year

S no.	Key Criteria used for Board Evaluation
A	For evaluation of the Board of Directors 1 2
B	For evaluation of Sub-committees 1 2
C	For evaluation of Chairpersons 1 2
D	For evaluation of Independent Directors 1 2
E	For evaluation of Executive Directors

Reassurance

Performance that was found to be optimal or that fulfilled the criteria laid down during Board Evaluation process could be listed under each of the distinct segment evaluated, the Board, Sub-committees, Chairperson and directors. Where the evaluation pertains to individuals, the details of evaluation need not be specific and could be generic without referring to the person concerned.

The Board Evaluation exercise provided reassurance on many aspects of the board process like

1. In Board process the directors were
2. In Sub-committees – (for each sub-committee separate)

Focus Areas Identified

The primary objective of Board Evaluation is to identify areas for improvement. Hence this is a critical aspect of disclosure as it not only discloses the effectiveness of the process but also communicates the transparency culture of the company as endorsed by the Board.

The Board approved the finding of the evaluation exercise to be disclosed in the Board's Report that included the findings of the exercise, the action plan for its implementation and the implementation status for the previous year's plan. The exercise identified <number> issues for improvements to enhance the effectiveness of the Board and its sub-committees:

Action Plan for Implementation

Areas identified for improvement, should be addressed with a timebound action plan covering the nature of action and the calendar for its implementation.

The Board has identified the following actions for improvement and the timeline for implementation as listed in the table given below:

S no	Plan of Action	Timeline for Implementation
1		
2		
3		

Status Report on Previous Year's Action Plan

A brief statement on the status of the action plan identified in the previous year's action plan for implementation.

All the findings from the previous Board Evaluation which included <mention the actions identified> were implemented during the year to the satisfaction of the Board/Committee.

Or

The findings from the previous Board Evaluation, which included <mention the actions identified> were implemented during the year to the satisfaction of the Board/ Committee. Further, <mention actions identified> are carried forward to the current year as these have a longer implementation period and are being implemented in a phased manner.

6. CimplyFive's Five Cardinal Principles for Effective Board Evaluation

1. Brief Board Evaluation Questionnaires

Short and focused questionnaires with not more than 10-12 questions covering criteria identified in the Board Evaluation Policy will contribute to an effective Board Evaluation. Among the questions, it is important to have two to three open ended questions to elicit constructive response for improvement without casting aspersions on the current process. It could cover aspects like

- What new practices can be introduced,
- What are the current practices that can be discontinued, and
- What new global trends in Board processes could be considered for adoption going forward

2. Quantifiable answers for summing up the responses

Most of the questions should have multiple choice answers that can be quantified to sum up the responses for identifying actionable. For instance, the choices could be

- Always evident, Evident on Most occasions, Evident on Few Occasions, Not Evident
- Trusted by all stakeholder, Trusted by all major stakeholders, Trusted by few stakeholders, Trusted by none.

3. Assuring anonymity of responses for getting critical feedbacks

Use of Online survey tools that provide anonymity of response is critical in receiving a free and fair response. To ensure anonymity, automated report generation without any human intervention is the key, as often a set of responses may give away the identity of the respondent to the insider who has access to the responses.

4. Engagement of specialists to facilitate Board Evaluation

Like a pinch of salt that enhances the taste of even the most royal cuisine, a fruitful Board Evaluation can enhance the effectiveness of Board processes thereby creating significant shareholder value. To get the most out of this process, engaging specialists, with broad exposure to varied boardroom practices and performance benchmarks is critical.

5. Allocating adequate time for identifying criteria and analysing results of Board Evaluation

Minimising the time spent on preparation and circulation of the survey and reporting would maximise the time spent on deliberating the findings and formulating action plan improvement areas identified thereby optimising the Board's efficiency. As a thumb rule at least 25% of the time spent on criteria and process selection and more than 50% of the time spent on deliberating the results of Board Evaluation is desirable for optimal results.



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Annexure-1 Evolution of Corporate Board Evaluation Practices-Significant Milestones

- **1992 -Voluntary practice by Campbell Soup Co.,**
 - In a bid to ward-off hostile takeover threats, Campbell Soup Co., voluntarily adopts the 'Code of Corporate Governance' which includes board evaluation. Based on Board Evaluation conducted, company reports areas for improvement (spend longer time for long-term strategic plans, some directors to speak up in meetings and upgrade in quality of Company Reports) along with an Action Plan to implement it. This practice was identified by the **Business Week** in their November 25, 1996 issue as an innovative practice in their article on 'The Best and Worst Boards'.

- **1995-Comply or explain provision by Toronto Stock Exchange, Canada**
 - Failure of Canadian Life Insurance companies in early 1990s led to the appointment of Dey Commission, which submitted a Report, titled 'Where were the Directors?' The report recommended a 14-point corporate governance practice to prevent such occurrences. The 5th practice recommended by the committee was 'Assessing the effectiveness of the Board, its committees and individual directors.'

- **1998-Acceptance in the UK, Hampel Report on Corporate Governance in the UK**
 - Hampel Report advocated the practice of Board Evaluation which was accepted in the Combined Code of Corporate Governance, 2003

- **2001-Acceptance in the USA, National Association of Corporate Directors (NACD)**
 - Report of the NACD Blue Ribbon Commission on Board Evaluation for improving Directors Effectiveness recommended Board Evaluation for listed entities in the USA

- **2003-Acceptance in India SEBI Report on Corporate Governance**
 - The committee recommended evaluation of non-executive directors as a non-mandatory reporting requirement.

- **2014-15 Mandate in India by The Companies Act, 2013 for Large companies and SEBI (Listing Obligations and Disclosure Requirements), Regulations 2015 for listed companies**
 - Annual Board Evaluation was made mandatory for all listed companies and public companies with paid-up share capital of Rs.25 crores or more.
 - In addition to conducting the evaluation, listed entities were to include identification of evaluation criteria in the charter of the Nomination and Remuneration Committee, placed on the website of the company.

Like most other governance and disclosure practices, Corporate Board Evaluation too has followed the path of voluntary adoption by a few companies who understood its benefits and were acclaimed, leading to regulators recommending it for adoption by larger group of companies. Initially the regulators adopted the 'Comply or Explain' mode before finally mandating it for all entities under their regulatory ambit.

Annexure 2: Regulatory Provisions on Board Evaluation

A. The relevant sections of the Companies Act, 2013 are:

Section 134 (3) (p) read with Rule 8 (4) of Companies (Accounts) Rules, 2014 in case of a listed company and every other public company having such paid-up capital as may be prescribed (Rs.25 crores or more), a statement indicating the manner in which formal annual evaluation of the performance of the Board, its Committees and of individual directors in the Board's Report shall be laid down before the company in a general meeting.

Section 178 (2) The Nomination and Remuneration Committee shall identify persons who are qualified to become directors and who may be appointed in senior management in accordance with the criteria laid down, recommend to the Board their appointment and removal and shall specify the manner for effective evaluation of performance of Board, its committees and individual directors to be carried out either by the Board, by the Nomination and Remuneration Committee or by an independent external agency and review its implementation and compliance.

B. The relevant regulations of the LODR for Equity listed companies are:

Regulation 4(2)(f)(ii)(9) Monitoring and reviewing board of director's evaluation framework.

Regulation 17 (10) The evaluation of independent directors shall be done by the entire board of directors which shall include –

- (a) performance of the directors; and
- (b) fulfilment of the independence criteria as specified in these regulations and their independence from the management:

Provided that in the above evaluation, the directors who are subject to evaluation shall not participate.

Regulation 19 Schedule II Part-D, Role of Nominations and Remunerations Committee

A 2. formulation of criteria for evaluation of performance of independent directors and the board of directors;

A 4. identifying persons who are qualified to become directors and who may be appointed in senior management in accordance with the criteria laid down, and recommend to the board of directors their appointment and removal.

A 5. whether to extend or continue the term of appointment of the independent director, on the basis of the report of performance evaluation of independent directors.

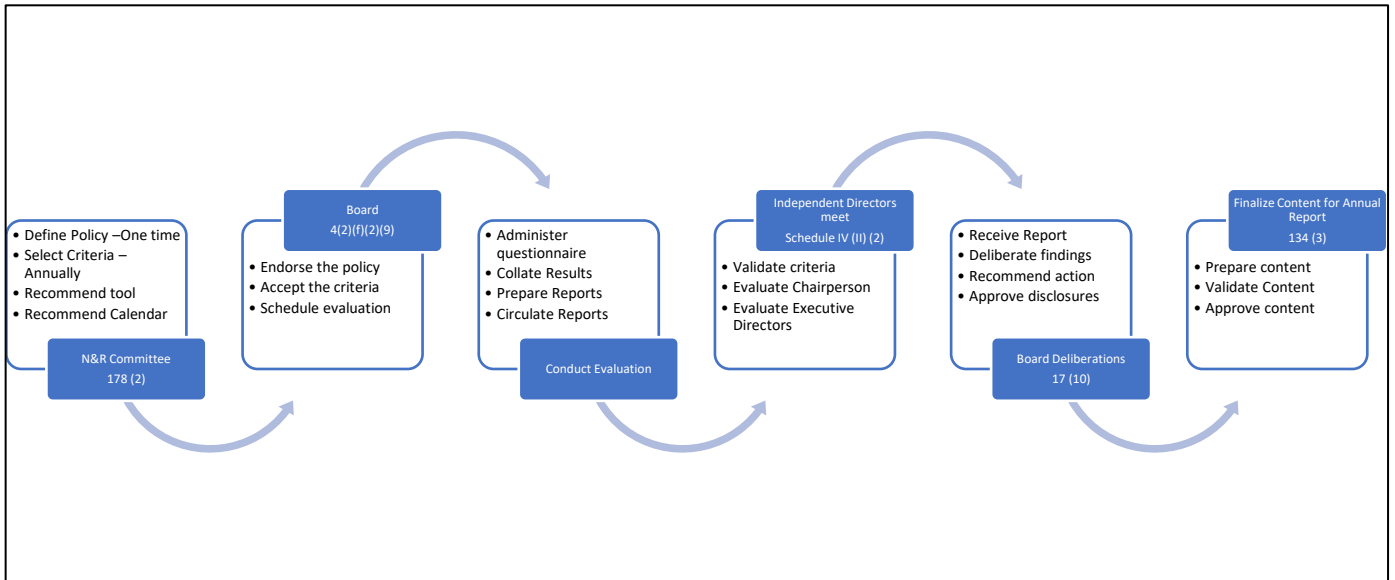
Regulation 34 Schedule V Part C Corporate Governance Report

4 d. performance evaluation criteria for independent directors.

7. Process flow of Board Evaluation as Envisaged in the Companies Act, 2013

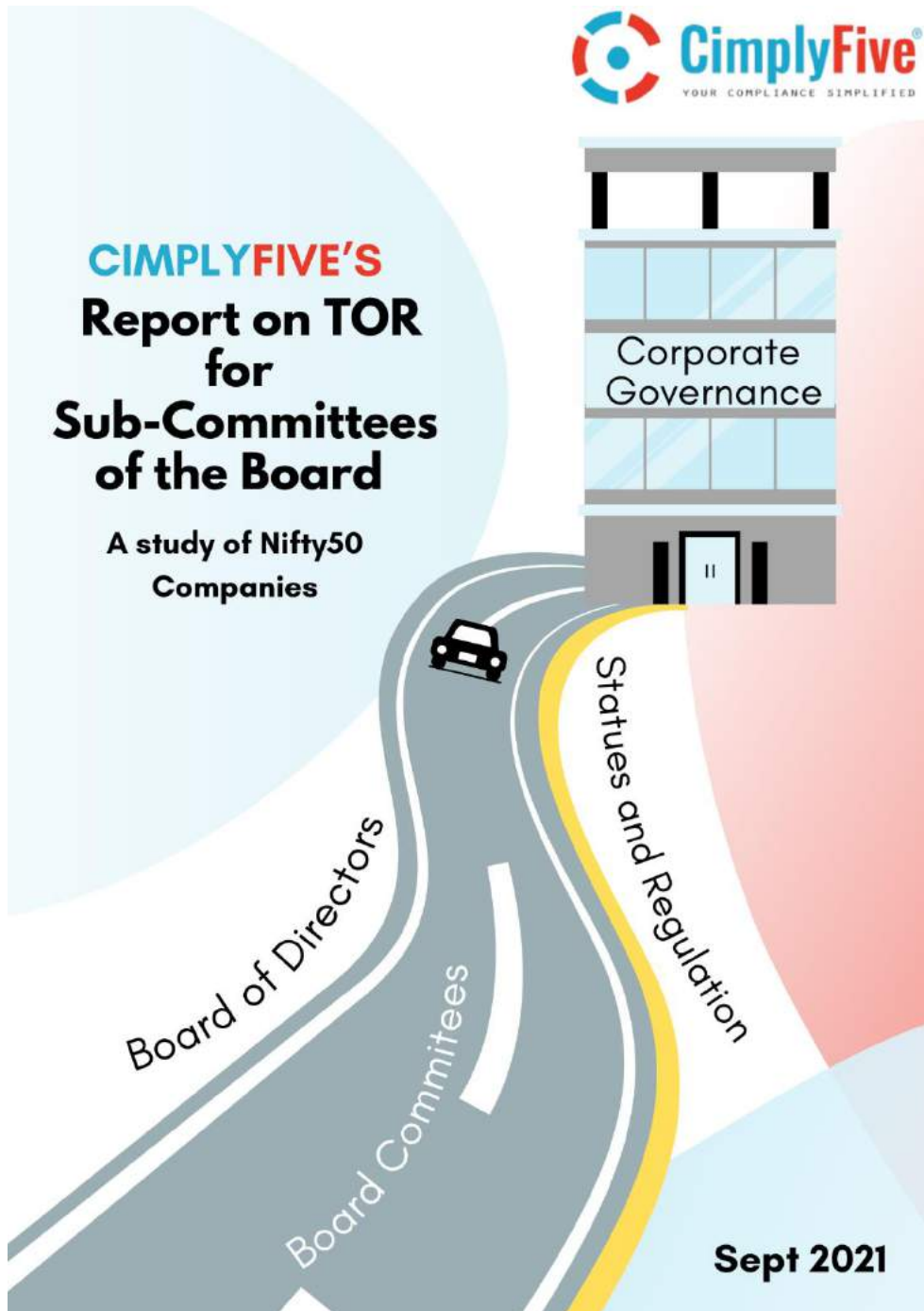
The regulatory provisions outlined in the earlier section translates to the process flow as described here.

Picture 1: Corporate Board Evaluation Process -Flow Chart



1. Nomination & Remuneration Committee of the Board to define, recommend the Corporate Board Evaluation Policy, criteria for evaluation along with the tools to be used for conducting it and propose an evaluation calendar.
2. The Board of Directors to approve the Corporate Board Evaluation Policy and the criteria with or without changes, recommended by the N&R Committee and initiate the evaluation process.
3. The identified directors, external evaluators, or the company executive to prepare accordingly for the approved board evaluation.
4. Independent Directors in their meeting to evaluate the performance of the Chairperson and Executive directors vis-à-vis the criteria.
5. The Board of directors to receive the Corporate Board Evaluation Report, deliberate upon its findings, decide on the Action Plan and approve the disclosures to be made in the Annual Report.

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CAIRR is a free to use website that provides the Company law integrated with SEBI regulations – LODR, Prohibition of Insider Trading, Takeover Code and IB Code, at your fingertips. This site which is updated every business day at 11 AM uses hypertext to integrate rules, notifications, orders and circulars with the Act and provides real time, online access to the Companies Act as it stands on that day