



## Executive Summary External Board Evaluation

November 2014  
Medellín, Colombia



# PROSPECTA



## EXECUTIVE SUMMARY

### Evaluation Results

Following the general results achieved in 2012, this new external Board evaluation assessment 2013- 2014 shows important improvement and a high level of compromise towards corporate governance. Again, this Board of Directors of Grupo Nutresa can be classified as a well-structured and mature governance body that achieves high compliance with international and local standards<sup>1</sup>.

In order to understand the performance achieved by this Board of Directors, it is relevant to understand the point of departure set by the last evaluation (2012). This Directors team was classified as a mature group with full compliance of the 37 local requirements our methodology evaluated. In relation with the best international practices, the elements of *Strategic Goals* and *Interaction* between Directors stood out through the assessment as the strongest areas where high levels of compliance and good practices were reached. The components in which we found more areas of opportunity were: *Meetings* and *Agenda*, where better planning and time management were signaled as the main drivers of the improvement needed.

Based on the level of compliance and maturity found, Prospecta issued the following general recommendations in 2012:

1. Discuss the creation of a Senior Independent Director figure
2. Include a private meeting of Independent Directors with the Chairman, in the Board´s agenda, at least once a year
3. Structure and define a formal process to draw the profiles of Board members, taking into account the knowledge required, experience, skills and the company´s strategic needs
4. Design an Action Plan to guide the topics and prioritize strategic needs and issues to be included in the annual Board´s agenda
5. Focus and synthesize informative presentations given in Board meetings in order to promote proactive discussions and sufficient time for deliberation

From the interviews held with Board members and the documents reviewed we found significant improvement in the focus achieved in meetings and in reducing the amount of information given in presentations. From the Board´s side, we found compromise to give feedback on the way presentations were delivered and to indicate where focus and synthesis were needed. One of the biggest achievements in today´s Board, as Directors mentioned in their interviews, is the depth and good level of discussion that is being

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<sup>1</sup> Colombian standards had an important improvement since the enactment of the new law "Código País 2014", the main regulatory body of Corporate Governance for public companies which includes most of the OECD recommendations.



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reached by the group, driven by having sufficient time for discussion and focused information.

In regards to creating the figure of an Independent Senior Director, this recommendation no longer applies because shareholders decided to designate an Independent Board Director as Chairman of the body, going even further than the recommendation given by Prospecta. This forward decision in comparison to local board structure and standards has given the figure of independence important strength and relevance in decision making, showing the commitment that Grupo Nutresa holds towards transparency and objectivity.

Recommendations 2, 3 and 4 were not implemented by the Board of Grupo Nutresa in evaluated period, therefore these issues will prevail in this new assessment as potential opportunities to excel, now with stronger standards at the national and international level.

In this second external Board evaluation of performance (2013-2014), the Board of Directors of Grupo Nutresa can be classified as a mature body, highly interested in its own performance and constantly thriving in order to improve it with higher standards. Compliance with international practices is reached in most of the areas we analyzed. The efforts to establish a team of Directors with a high level of expertise and knowledge, guided by an Independent Chairman, gives this Board a strong and objective composition, achieving a group with diverse and complementary skills able to provide impartial and solid guidance to the executive management team. This composition ensures transparency to stakeholders and stability in transition periods of the executive team.

From our perspective, the evolution that this Board has had in the last years with respect to governance and performance is driving value creation from within the Board. Directors of Grupo Nutresa show a high level of understanding of the industry, context and specific managerial issues that together with high participation lead to the generation of common knowledge and strategic decision making. From the multiple perspectives that co-exist inside the Board, we consider that the group as a whole has sufficient knowledge to give the oversight and direction required.

In the current evaluation the following high performance areas were found: the components of *Interaction* and *Strategic Goals*, both with grade of 100 out of 100 possible points, were the best areas of performance and achievement. It is important to highlight the existence of constructive relationships and professional admiration among Board members as a driver of trust and respect among Board members.

With regard to *Strategic Goals*, the evolution and work of the Board in the definition and direction of the strategy is exemplary, including good planning and monitoring of the



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strategy, we also found significant alignment in risk management and sustainability with strategic priorities.

The component of *Communication* archives a grade of 94 points, highlighting the accurate timing and transparency levels that the information given to the market has reached. Another area that stands out due to its high evaluation standards is the component of *Discussion for Decision Making* (92 points over 100). It is worth mentioning that the active participation of Board members in discussions is also having positive impact in this component due to the existence of profound discussion, significant dissent and well-structured debate before decisions are taken.

The components of *Agenda* and *Committees* have scores of 83 points each, and the component of *Board of Directors Functions* reaches a grade of 80 points. In relation to the *Agenda* component, it is suggested that the Board elaborates a formal planning exercise drafted in an annual Action Plan that include strategic topics and prioritized matters to be included in the Board's agenda. To improve performance in the *Committees* component, we suggest to review: delegated functions (scope and limits), frequency and content to be included, in order to have a better balance and uniformity between this working groups.

In the component of *Board of Directors Functions*, although we witnessed an effective process of CEO succession from the documents and interviews held, Prospecta suggests to elaborate on processes, talent mapping and training established in formal succession plans of key positions. We recommend to reviewed this plans on a yearly basis, specially the CEO's succession plan. Other opportunities found in the area of *Functions* is the need the increase study time for Board meetings and committees (complete information is crucial in order to achieve this), and the necessity to work on risk awareness and management tools from within the Board of Directors.

The following are components with relevant opportunities of improvement found in the external Board evaluation: the components of *Composition* and *Information* reached scores of 70 and 62 points respectively, showing that performance in these areas need improvement and better implementation of governance practices. From our point of view, formal discussion of future Board member profiles and strengthening the induction and training processes of Directors, would definitely increase performance.

Finally, the component of *Meetings*<sup>2</sup> has a score of 50 points over 100. It is suggested to take into account the recommendation to hold independent members meeting and Board meetings without the management, the absence of this private reunions to discuss Board performance issues and the strengthening of independence is having an important impact on the grade obtained.

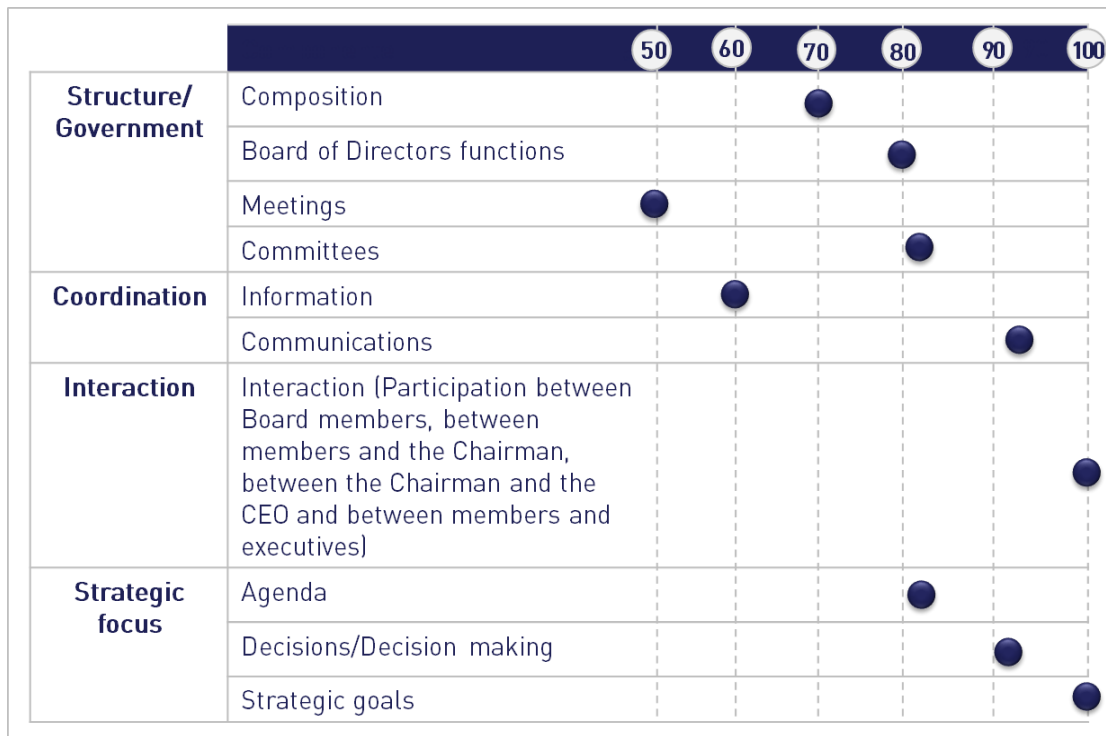
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<sup>2</sup>In this evaluation Prospecta has integrated new elements in its methodology. In the component of *Meetings*, the component of Meetings without the management team was included. This element is recommended as an international best practice. In the past evaluation of Grupo Nutresa this element was not included.



Currently, the Board of Directors of Grupo Nutresa presents full compliance with local and current requirements (Colombian regulation) towards the 40 elements evaluated. Therefore, the analysis is mainly centered in the compliance with international standards.

Table of results



**Recommendations of Board evaluation of performance (2013-2014)**

We identified improvement opportunities in order to reach superior compliance with international best practices. Principal opportunities are summarized in the following recommendations:

**1. Design a Board of Directors’ Action Plan, determining the content (main issues) of annual meetings and providing space for discussing strategic issues**

In order to approach international best practices, Prospecta suggests to design and follow a formal Board of Directors’ Action Plan. This process should be led by the Chairman of the body, managing to achieve a planning exercise that outlines the Board priorities in an organized manner and gives relevance to the principal strategic issues to be addressed throughout the year.

We found that the Board of Directors of Grupo Nutresa is well organized and focused. Although we couldn’t find a drafted planning of topics to be discussed, we evidenced



that in practice the Board's meeting structure, the existence of an annual schedule and the knowledge and experience of Directors and executives, have been determining in achieving a focused and complete agenda. We consider that to take strategic focus to a next level, an Action Plan may be used as a good planning exercise. This tool will allow Board members to follow the continuity of meetings and to center themselves in the study of strategic issues through the year. We suggest all Board members to be included in the drafting process and we also recommend to incorporate a defined space in today's Board structure to talk about strategic issues. Additionally, to review and discuss strategic issues in depth, we consider appropriate to review the actual time assigned to different sections of Board meetings.

## **2. Define the profiles and experience needs of future Board members**

Best practices suggest that the Board of Directors should review the practice of updating its members' profiles to achieve the long-term strategy. This exercise assigns to the Board of Directors the function of evaluating and drafting the possible profiles that can be required in the future. This exercise aims to determine the relevance of the current Board profiles and to make a prospective exercise that allows the Board itself to identify the type of profiles that would benefit and complement the existent strengths. This discussion should be aimed at achieving the best possible combination of skills, knowledge and expertise that complement today's Board helping Grupo Nutresa to achieve its long-term goals.

We recommend that this exercise should be done at least once a year, and that the results obtained should be submitted in advance to shareholders who are responsible for the nominating and election of Board candidates in the Annual General Meeting.

Finally, we recommend to remove the alternate director figure ("suplente") that is no longer used in international practices and to discuss if the size of the Board is adequate considering the increasing demands of committees and the Board of Directors.

## **3. Define a training plan for Board of Directors**

In the process of the external Board evaluation we found interest from Grupo Nutresa and from the Board members to work in training plans for Directors. This plan should assure adequate training in matters related to the general knowledge of the Board and also in specific knowledge to reinforce particular areas of strength or weaknesses.

It is worth emphasizing that the local regulation updated on 2014 established training and induction as one of the main rights that Directors hold as Board members. An effective way to empower the best use of the combination and complementary knowledge that exists inside the group is to motivate Directors to continue learning on topics that provide greater insight to the group discussion and decision making.



**4. Provide guidelines on the way information should be delivered to the Board of Directors**

In the process of this Board evaluation we found quality and focused information that was either sent to Directors or given in presentations on the actual Board and Committee meetings. Nevertheless, Directors mentioned their interest to have previous access to relevant information and presentations before meetings took place in order to be able to study in depth for discussions. Today information is being sent on a timely manner but mainly focused on financial results, Directors wish to receive all the possible information needed in order to have deep discussions and well informed decision making.

**5. Elaborate a formal succession plan for Senior Management of Grupo Nutresa**

The Board of Directors has done an outstanding job working with the CEO in the effort to uphold senior management positions occupied by high level executives with exceptional professional and personal skills. We suggest to formalize this process through a yearly revision and discussion inside the Board about the processes, important talent management politics and decisions and a review of possible successors inside Grupo Nutresa for key executive positions.

We strongly recommend to design a formal succession plan for the CEO that should be reviewed annually. It is important to rely on the existent mechanisms for senior management performance evaluation, tracking and development of career plans and succession mapping of potential candidates within the Group.



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