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Board Evaluation: Re-Calibrate Your Board

“It is now a listing requirement of the NYSE that boards, along with their Nominating, Governance, Compensation, and Audit Committees, all perform annual evaluations. But progressive boards have known all along that self-evaluation is a vital process – one that ensures continuous improvement and renewal.”¹

Even if your company is not subject to the Sarbanes-Oxley requirement of doing an annual board evaluation like NYSE companies, shareholders, cooperative members and stakeholders are asking questions and evaluating your company as though you have the same requirements. Your membership, investors, shareholders, community and employees are expecting and even presuming the board is using an objective approach to hold themselves and the company to the “best business practices” that have been a positive result of this legislation.

It is unfortunate that something that can raise the board to a higher level of performance should be called an evaluation. Evaluations are a tool that may create anxiety and avoidance. Yet many boards are getting past the title and getting to the positive results for board development that a well designed and executed board evaluation process can provide.

A well designed board evaluation will focus on key functions of the board and provides a “gap” analysis that draws weak areas to the surface. It will look at disbursement of responses and will identify the “tone” of the responses. Board evaluation is most meaningful as a productive activity for the board when it focuses on board development rather than compliance. This takes knowledge not only of board function, roles and responsibilities but also how all this information links to the current business trends, industry trends and market changes. A vibrant board evaluation moves the board to a higher level of performance on business issues while enhancing group dynamics. Overall a board evaluation can transform a group of strong individuals to a collective body of focused board members who enhance their value to the CEO and senior management team and all stakeholders. A skillful board evaluation which causes directors to say “I’m glad we did that” is produced by:

- ❖ Clear board objectives
- ❖ Reports and feedback from a knowledgeable third party
- ❖ Facilitated follow-up discussion with the board to identify board development actions
- ❖ Integration of board evaluation into strategic leadership and planning
- ❖ Insights that lead to greater team effectiveness

¹ Charan, Ram, *Boards That Deliver: Advancing Corporate Governance from Compliance to Competitive Advantage*. Jossey-Bass Publisher, San Francisco, 2005, p 42

At times boards find themselves showing up for a meeting and going through the motions. Knowing the vital signs that a board needs to complete an evaluation can help a board move to a productive oversight role. The timing to do a board evaluation can be from a number of signals. Questions to review when considering a board evaluation include:

- Is the board engaging in a fully fledged debate over key issues?
- Is there confusion over the board's role of oversight versus micromanaging?
- Is there a common vision that the board agrees on and is moving toward?
- Are the fiscal responsibilities of the board members clear?
- Is the board recruitment based on the strategic plan?

Matching a board's objectives, dynamics of tenure on the board and stage of business are just a few elements that should be considered by a board as they think about board evaluation. Boards need to be thoughtful and deliberative when considering the type of board evaluation to use. Board evaluations progress from simple with more of a compliance orientation to a comprehensive approach that involves both written response and discussion with individual directors in a safe environment.

Our practice with boards, has taught us to be mindful of important stages boards go through as they become more and more effective working together, working with their senior management teams and providing important strategic guidance for the business that is received and acted upon.

In the early stages of a business the entrepreneurial venture begins to build systems, establish relationships with the community hear from management about staffing and key employee issues and return on investment. The board is entering into an understanding of the board's role with management, representing the organization, understanding the organization and establishing the initial board room dynamics.

The board evaluation at this stage in a business venture involves establishing a baseline of questions that focus on fundamental board oversight, management/board relations, key compliance areas in the industry, regulatory agencies and ensuring transparent financial reporting standards. The board evaluation can be handled in a quick and simple manner yet provide meaningful information for the board to grow to a next level of oversight and performance.

If the board should decide to remain independent they need to choose a board evaluation tool that will allow a "deeper dive". This more comprehensive approach combined with a consultant who has governance expertise and understands the state of the business cycle in the industry can provide deeper insight and needed shifts in board performance essential at this business juncture. Integrated with strategic planning, the board evaluation can be a tool that assists the board in developing actions plans to move forward. Transformations often come fast; they require a board to be positioned to handle decisions to keep the current business viable while adding new direction to ensure its future position within the industry. Anticipation, implication and asking deep and thoughtful questions to understand the big strategic picture are vital actions of the board and should be tested in the board evaluation process during this stage.

Enlightened Boards are engaging in board evaluation even if not required as part of their development goals. Overcoming the resistance to a board evaluation can enhance the strategic planning process. It creates a strategic intelligence that is an essential part of the board's oversight role at any stage of growth in the company. A philosophy of continuous improvement from board leadership sends an excellent message to stakeholders and the community about the character of this company. The board evaluation is a great tool to create and sustain positive change.

Proposed box 1

Benefits of Engaging In Board Evaluation

- Identifies new strategic issues and direction;
- Promotes richer discussion of activities and practices that affect the board and the organization and surfaces new solutions and a fuller understanding of current practices;
- Creates an objective atmosphere to discuss and resolve sensitive issues;
- Facilitates new ideas, approaches and clarifies viewpoints;
- Identifies important action items for the board and management;
- Reveals new opportunities to improve meetings, director nomination process, director development, and board structure (to name a few);
- Provides a safe environment for all directors to provide their viewpoints
- Accelerates board integration and promotes focus and direction for boards following mergers and consolidations.
- Enhances public perception of the board
- Defines the board culture
- Lays the foundation for more favorable D & O
- Enhances board effectiveness

Proposed box 2

Basic Elements of a Good Board Evaluation

- Anonymous
- Neutral third party
- Identify specific goals the board wants to achieve
- Identify a gap between current and desired performance
- Director comments included
- Director interviews
- How to get started on recommendations

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