Board Assessment: Designing The Process

by Beverly Behan

With board self-assessment and evaluation becoming a fact of corporate life, the actual mechanics of effective assessment are a growing concern. What are the most common techniques? How do you design the process? How can you assure that assessment becomes a useful self-improvement tool rather than just a governance exercise?

"To assess or not to assess" is no longer the question for boards of major U.S. companies. Now that the New York Stock Exchange requires boards and their committees to conduct annual self-assessments, a more relevant question is, "Should we do only the minimum required for compliance, or is it worth investing in a more ambitious approach that has the potential to improve our overall governance?"

Assessment is one of the most powerful interventions available for turning a good board into a great board.

When it comes to board assessment, doing just the bare minimum means squandering one of the best opportunities you will ever have to genuinely improve the way your board works, both as a team and together with the CEO and senior management. Assessment is one of the most powerful interventions available for turning a good board into a great board—one that is constructively and effectively engaged, that genuinely adds value for the CEO and management, and that provides strong corporate oversight.

A *de minimus* approach to board assessment does not substantially improve your board and might actually create some risks. A poorly designed and executed board assessment process can destroy trust, erode credibility, and shatter essential working relationships.

A board that assesses itself by checking off a few boxes and concluding "We're okay" might satisfy the NYSE requirements, but has little else to show for its effort. The real value of a board assessment lies in engaging board members in thinking about and discussing how the board does its work, and finding ways to make the board even more effective.

Effective designs for board assessment typically uncover three to five major issues, generate good discussion about them, and yield useful ideas for improving the board's performance. Boards that are appropriately engaged tend to raise more issues, because they strive for continuous improvement.

There are five fundamental questions to address as you design your assessment process. Each one represents a crucial fork in the road. Together, the answers will shape your process and determine its effectiveness. It is best to consider them all and develop a game plan before you get started, rather than trying to redesign the process on the fly.

☐ *How will you get the board to "buy in" before the process starts?* It is one thing for a board to accept that assessment is required, but quite another for them to genuinely believe the effort is worthwhile. It is essential to involve directors right from the start in designing their own process, beginning with goals and assessment criteria.

There are some thorny decisions to be made: How will confidentiality be assured? Who will collect the data? Who will see the results? Will the committee assessments be done separately or as part of the overall board assessment, and will non-committee members have input into them? Directors must play a role in shaping the assessment in ways that will

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convince them of its legitimacy and value.

☐ *What topics will be explored?* A crucial aspect of the design is to reach a shared understanding of the issues to be assessed. These might range from board structure and work processes to quantitative measures of corporate financial performance. In addition to broad issues, there may be particular topics a board has focused on in the past year that would benefit from a "pulse check." The challenge most often is to develop a list of topics that is neither too sparse nor too tedious.

☐ *How will the data be collected?* Will you gather quantitative or qualitative data or a combination of both? Surveys are useful in evaluating perceptions and are invaluable in tracking progress over time, but they have their limits. Individual interviews tend to unearth richer data and underlying concerns, forming the basis for excellent board discussion and yielding highly productive results.

Group assessments, on the other hand, can plumb insights about performance in a format that can also serve as a beneficial team-building exercise. The selection of a methodology—whether alone or in combination—represents a major choice point in the design of the assessment process.

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☐ *Who should conduct the assessment?* Using internal staff is less expensive; in addition, insiders, with their knowledge of the company and its board, may ease any board concerns. On the other hand, an outside third party might bring more expertise in assessment methodologies and be perceived as more candid and objective.

We once worked with a board that had used internal resources to conduct board assessment for three years before our involvement. One component, a survey that tracked year over year, was markedly different the year we were part of the process. When this was discussed with the board at the feedback session, directors confessed that they had been much more candid with "outsiders." Consequently, some important areas not previously identified were discussed and addressed.

☐ *How will feedback from the assessment be handled?* This is probably the single most important component of the process. It will go a long way toward determining whether the process succeeds or fails. Deciding who will share the feedback with whom, in what settings, and under what conditions is critical. Even more important is the design of the working session with the board where feedback results will be presented and discussed.

It is not enough for the assessment to raise touchy issues. To be successful, it also has to *resolve* the issues. For example, one board's self-assessment raised concerns about a "two-tiered board"—one level consisting of the full board, the other including only members of the executive committee. The latter met twice as often as the board and therefore was seen as better informed and more actively engaged. The issue was aired during the feedback discussion, and it was agreed that in the future, all matters would be brought to the full board either through meetings or conference calls whenever possible, and the executive committee would be used only for emergencies.

The best board assessments involve some combination of both qualitative and quantitative data. Our work with boards, for instance, usually involves three approaches: surveys, one-on-one interviews, and facilitated group self-assessments.

☐ *Quantitative self-assessment: Survey approach.* In this approach, board members complete a written survey that asks them to rate the board's performance on a variety of dimensions, using a numeric scale. The data from the completed surveys are evaluated and compiled in a report that generally includes analysis of both scores and summaries of any write-in questions. The report forms the basis of a working session with the board. Feedback from the assessment is discussed, areas for improvement are identified and prioritized, alternatives are debated, and the best path for improvement is determined.

A major advantage of using a quantitative assessment is the ability to perform comparisons and track the board's progress over time. Surveys can also be designed to ensure anonymity and give directors flexibility because they can be completed at their convenience.

☐ *Qualitative self-assessment: Interview approach.* Confidential interviews with each board member are useful for gathering in-depth insights about the board's performance. Typically, a list of interview questions is distributed to directors in advance. While the structured questions provide some uniformity in terms of topics covered, an interview format helps directors raise issues that go beyond the questions. Notes from the interviews are compiled and analyzed by key themes, which are typically summarized in a report. As with the survey format, the results are presented in a working session with discussion.

Interviews can be designed to protect the anonymity of participants, particularly if a third party is used to conduct them. Because this approach typically generates more detailed and complete information than is possible with quantitative assessment, it allows interviewers to delve deeply into complex issues.

Critical thinking is heightened if board members are together when asked questions, hearing opinions and questioning each other.

☐ *Qualitative self-assessment: Group approach.* In the group self-assessment, a third party trained in the method leads a group discussion of the board. The session involves direct, probing questions, and full engagement of all directors in a group setting.

Our experience shows that critical thinking is heightened if board members are together when asked questions and have the opportunity to hear other opinions and even question each other. A report that summarizes the session can be used in subsequent working sessions with the full board to discuss results and future actions.

The group discussion works particularly well where there is a high degree of trust and openness among directors. These facilitated sessions require no preparation by directors, and the process itself typically serves as a team-building exercise for the board.

Those new to board assessment typically select one of the three methodologies (most commonly the survey) and use only that approach. More sophisticated boards have learned to combine approaches and tailor them to their specific needs. This allows them to view the board through somewhat different lenses and capitalize on the benefits of each approach.

In one example, a high-growth NASDAQ company decided a board assessment process could be beneficial. It used a survey, followed by a group discussion. The survey indicated there were concerns about information, board leadership, and corporate strategy. However, through a group session the real issue was uncovered: The company had undergone a series of quick acquisitions and the board was worried that it had not been able to sufficiently evaluate the deals.

The CEO, on the other hand, said the board impeded his momentum in deal-making. Their discussions led them to a consensus that the board needed a deeper understanding of the company's strategy in order to make quicker decisions about possible acquisitions. Without the group self-assessment, it is unlikely they would have reached a resolution as quickly as they did.

Thus, the feedback portion of the overall assessment process is perhaps the most crucial. Decide at the outset how the feedback will be delivered and by whom. Even if a third party facilitates the feedback, the real leader or leaders of that session are in fact the chairman of the corporate governance committee and/or the chairman of the board. As such, they need to be aware of factors and dynamics that are likely to come into play during this discussion.

Boards tend to be made up of people at the height of their professions who are not used to getting performance reviews. Anxiety, defensiveness and fear can get in the way.

People walk into board feedback sessions with various emotions and preconceptions that can be

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What To Measure And How

The most robust assessments use a combination of these methods, rather than relying on a single approach.

	Quantitative: Survey	**Qualitative: Personal interviews**	**Qualitative: Group self-assessment**
Description	Board members complete a written survey, rating board performance on a numeric scale; results are discussed by the full board in a feedback session	One-on-one interviews are conducted with each board member; results are discussed by the full board in a feedback session	Trained facilitator leads a group discussion of the full board; session summarized in a report for future use
Strengths	☐ Participants are familiar with this straightforward, standard practice ☐ Can be completed at a participant's convenience ☐ Can track a board's progress over time ☐ Feedback sessions often focus on generating additional information and insights to supplement the survey data ☐ Anonymity can be ensured	☐ Participants become engaged in the interview process; most find it interesting and even enjoyable ☐ Information tends to be more detailed and complete than what a survey gathers, which is helpful in fully understanding the issues, setting priorities, and developing plans to address them ☐ Feed back sessions tend to be highly engaging ☐ Anonymity can be ensured	☐ Participants find the process energizing and engaging ☐ Critical thinking is heightened because views are shared with everyone and participants can question each other ☐ Generates consensus on priorities and support for plans to address them ☐ Requires no preparation by participants ☐ Serves as a team building exercise ☐ Most effective when there is a high degree of trust and openness among board members

more intense than found in similar situations involving other groups. After all, boards tend to be made up of people at the height of their professions who are not used to getting performance reviews. If not managed well, these feelings—particularly anxiety, defensiveness, and fear—can get in the way of effective communication and hinder directors' ability to identify and solve problems

Some boards have customized their assessment processes, adding an assortment of "bells and whistles." These include senior management's perspectives on the board's effectiveness, assessments of the chairman (or lead director) and board committees, and a review of board minutes.

☐ *Management evaluation of the board's effectiveness.* Although a board assessment typically involves input by the directors themselves, some boards want to know how management thinks they are doing. Does the board actually add value for them as senior managers? What do they see as the most valuable contributions by the board? What, if anything, would managers want to change in terms of how the board and management interact?

One client , a high-profile media company, included in its assessment a set of questions for seven senior managers who regularly worked with the board and attended its meetings. The average scores the board gave itself on several components differed dramatically from the scores given by senior management. Some differences came as a surprise. On several issues, management clearly felt the board was adding more value than the board thought it was.

The nominating and corporate governance committee and a management group met to discuss the underlying issues. Both the board and management decided to make some changes, which, within a year, had a positive impact on the board and its working relationship with the management team.

☐ *Assessment of the chairman and/or lead director.* In the United States, the vast majority of public companies (more than 70 percent of the S&P 1500) combine the roles of chairman of the board and chief executive officer. These two roles, however, are very different. An outstanding CEO can be a poor chairman and vice versa. Recognizing this, some boards feel it is useful to evaluate the CEO separately in his or her role as chairman of the board, either as part of the annual CEO evaluation or as a component of the annual board assessment.

The three approaches to gathering board assessment data just discussed can be effectively used in designing assessment of the chairman. First, a number of questions must be answered. Who will lead the process, review the data, and provide feedback to the chairman—the chairman of the compensation committee, the chairman of the governance committee, or someone else? Is there value in using a third party to collect data? Will employee directors serving on the board be asked to provide input into the chairman's evaluation, or will this be limited exclusively to *outside* directors? How will results of the chairman's assessment be shared with board members?

If the board has a non-executive chairman (someone other than the CEO serving as chairman) or a lead director, it might be useful to assess their effectiveness. In these circumstances, the question of who will assume leadership for the process and deliver the feedback is sometimes even more difficult. This responsibility typically falls to the chair of one of the key board committees that the non-executive chairman or lead director does not lead.

While the role of "presiding director" is becoming more prevalent, it is typically too limited in its scope to warrant a separate assessment. However, the effectiveness of executive sessions of the board and the leadership of those sessions should be included in the board assessment, providing feedback on the presiding director's performance.

Committee members can best observe how well their own committees function, but feedback from the full board is useful.

☐ *Assessment of board committees.* Prior to the new NYSE proposals, a separate evaluation of each board committee was relatively uncommon even among boards that annually evaluated board performance. Most commonly, questions about board and committee structure and perhaps a few questions about each committee's performance would have been incorporated into the board assessment process.

However, now that NYSE proposals require an annual assessment of board committees, more comprehensive practices are developing. Committee assessments can be done either as part of the board assessment or independent of it.

A key consideration is whether to incorporate feedback from both committee members and nonmembers into the process. Committee members are the only ones who can observe how the committee operates from within. However, the full board receives regular reports from each committee, including recommendations to the board. Most directors who do not serve on a particular committee form impressions about the effectiveness of the committee from this information. This perspective can be very worthwhile for the committee to incorporate into its assessment.

☐ *Review of board minutes.* Some boards find a review of minutes helpful. It explores how the board actually spends its time and compares this with how the board feels it *should* spend its time. For example, if board members feel strongly that CEO succession and executive development are a board priority, a review of board minutes over the past year can indicate how often the board discussed this issue. A similar review can be a useful component in committee assessments.

Although not a regulatory requirement, many boards have begun to incorporate director peer reviews into their assessment process because of their potential value. In a typical peer review process, board members provide structured feedback on each of their fellow directors. Some benefits include:

☐ *Professional development.* Feedback becomes increasingly rare at higher corporate levels. Consequently, directors receive very little (if any) feedback on their performance other than isolated comments such as, "That comment you made today was right on" or, "I really think we've got to be careful about beating a dead horse." A structured director peer review process provides a comprehensive perspective on a director's overall contribution, identifying both areas of strength and opportunities for development.

☐ *Enhanced board performance.* Board members typically use peer feedback to leverage their strengths and address developmental opportunities, which ultimately results in better performance of the board as a whole. Noticeable improvement often follows a peer assessment simply because the director has been made aware of a need for change—often for the first time. Even when directors disagree with feedback, most find it useful.

☐ *Team building.* Destructive board dynamics are a risk, especially if the peer review process is poorly designed or badly managed. If done well, however, peer review can foster board team-building by providing a forum for board members to reflect on individual contributions and how they work together.

Because of its sensitive nature, design and implementation of director peer reviews warrant even more care than other aspects of board assessment.

Sometimes a peer review is solely for professional development of individual directors, which allows board members to become comfortable with the process before attaching consequences to the results. Directors tend to treat their peers' feedback seriously, even when it is purely developmental. In extreme cases, low scores have prompted resignations. More generally, a noticeable improvement in performance can be expected. Since the proposal of new governance legislation, peer reviews are increasingly being used by the nominating and governance committees to help them make re-nominating decisions.

We typically recommend a combination of quantitative and qualitative approaches for peer review. It is particularly helpful to conduct confidential interviews when the process is first introduced, which allows directors to be more candid and more expressive than they can be with a survey. Use of a third party to collect and analyze the data helps ensure candor and confidentiality, both essential to a successful process.

Results are often used to shape developmental opportunities for the board as a whole or for individual directors, and improvement can be measured yearly. If the review is developmental, feedback is usually summarized in writing and given (typically by a third party) directly to each participant. If quantitative data is collected, a comparison of each individual score with the average score of the entire board is provided. Individual meetings or phone calls are suggested if sensitive or challenging issues emerge.

If the assessment is part of the review for re-nomination, decide at the outset who will see the results. Typically, the nominating and corporate governance committee or its chair receives a summary shortly after the full results are provided to each director. If results suggest performance and re-nomination concerns, the committee discusses how to handle this, and the chair schedules individual meetings with the appropriate board members.

Now that many boards are obliged to conduct an annual assessment, most want to "do it right"—creating a process that is meaningful, practical, and engaging. A comprehensive and effective board assessment is one of several critical components of an overall process to move beyond legal compliance to a more purposeful effort to improve a company's governance. ■

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