

# Why Board and Director Evaluations Matter

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“So, how effective is our board, really?” This question is increasingly being asked of boards, for various reasons, the most obvious of which is fear of governance failure. In the wake of high profile corporate scandals over the last year adding to the list of the corporate “rogues” from the last decade, one thing is certain: a focused spotlight will continue to be aimed on corporate governance by shareholders, regulators and the general public. A second reason is that the performance of boards of public companies is being graded and published in various media for all to see; this is increasing shareholder and public scrutiny of board performance. A third, and perhaps lesser-known reason, is that the growth and formalization of governance education and certification programs over recent years have created a growing collective consciousness and knowledge

among directors about good governance. All these factors are causing boards to step back and formulate questions about their effectiveness: “Given our increasing knowledge about good governance,

*is our governance good enough and is it improving?”*

If your board is wondering about its effectiveness, it needs to begin with a well-designed and well-executed assessment process – one that reveals the truth about your board, its overall effectiveness and the individual contributions of each director.

## How Board and Director Assessments Lead to Improved Governance

It has been our observation that board evaluations have enabled organizations to improve their performance in a number of critical ways:

### 1 Measuring Board Performance Catalyzes Focused Reflection on Governance

Board evaluations serve to catalyze focused thinking on the purpose of governance that may otherwise not be given adequate regular attention. As with business performance, if it gets attention, it is more likely to improve. By giving attention to board performance, the

board includes itself in the evaluative scope applied to the performance of the entire organization – or put otherwise, it “walks the talk”. The formalization of a board assessment process gives board members permission to raise issues that might otherwise be considered misplaced or even subversive if not housed within such a process. In addition, this thinking and dialogue on board purpose and effectiveness invariably leads to a growth in the board’s capability of assessing its own performance, which is then often expressed through the establishment of a periodic rhythm of board performance assessment.

### 2 Board Assessments Help Synchronize the Board with the Organization

Board evaluations can effectively serve change processes at work within the organization, where the impacts of those changes precipitate the question, “How might the board need to change?” For example, one firm integrated several separate businesses into just one business with complementary service lines. This strategic shift in

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organizational structure then raised questions about the effectiveness of the board's structure that still mirrored the past corporate form, and ultimately led to a board review. We have observed, more generally, that the change processes at work within organizations tend to cause structural incongruities or process inefficiencies between management and the board that accumulate over time and that create frustration and, potentially, conflict. When it becomes clear that simple adjustments are not adequate and that a more systemic review is required to assess the issues at hand, the board evaluation process can be used to support broader change processes within the organization.

### 3 Board Assessments Underscore the Importance of Director Performance

We have observed that boards are initially interested in board performance reviews, but they often find individual director evaluations more intimidating. However, board evaluations invariably draw attention to the importance of the contributions of individual directors and the importance of ensuring that the necessary skills for the board are developed. As a result, boards see the value of applying the same principles of performance assessment for the whole board to individual directors, which is usually given expression in some form of peer evaluation. In order to undertake director evaluation, boards are pushed to articulate the skills, experience and, most critically, the behaviours that they need from their directors to be successful,

based on best practice. It has been our experience that, if feedback on director performance is delivered well, directors almost always value the information that they receive and also identify ways to use that feedback to improve their own effectiveness. As boards have the courage to make this foray into director performance assessment, they come out the other end not only with improved directors, but increased clarity in response to the questions, *"What do our directors need to be good at?"* and *"How capable are our directors?"* These insights are particularly helpful as boards

look ahead, because the gaps identified within the aggregate skill and experience mix become the search criteria for future directors.

### 4 Board Assessments Clarify the Effectiveness of the Management-Board Relationship

Board evaluations also foster focused reflection of the effectiveness of board-management interactions. Through the evaluation process, the CEO considers, *"What value is the board providing to me and to this organization through the course of our interactions?"* and the board considers, *"How is the CEO helping us focus on the most important questions we need to address?"* It has been our experience that a key place in which these questions intersect is in the context of strategic thinking. It is here that the board must engage in meaningful dialogue with the CEO on the direction of the organization and the CEO must help the board focus on the most important issues or questions at hand.

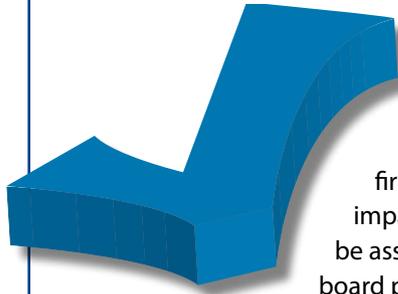
### How to Get the Most out of Board and Director Assessments

Given these observations, we believe that the assessment of board and director performance is most effective when characterized in the following ways:

#### 1 Assessment Processes Should Align with Broader Organization Change

A board or director evaluation process should align and fit with any broader change process in the organization, rather than in isolation, in order to leverage the greatest effectiveness out of each process at work. If, for example, a company is making a set of cultural shifts in order to increase its capabilities in innovation, a key purpose of a board review, coinciding with these shifts, should be to support and demonstrate board commitment to this broader organizational shift. Practically, this may mean that if the board is reviewing its overall performance, it may include assessment of how well the board has contributed to creating an organization that encourages innovation in the past, and how it may do so going forward. The same is true for the overall change or growth processes in the board. If, for example, the board has acquired a cumulative base of governance knowledge and insight through





governance training over time, this body of knowledge should first be identified so that the impact of that knowledge can be assessed within the overall board performance process. In this case, the board can then answer the question, “*What difference has all our governance training made?*” Whatever the organizational scenario may be, a contextualized assessment process helps the board anchor its performance review in a way that is linked to wherever the organization and the board is already going.

### 2 Assessment Processes Should Lead to Honest Dialogue

Feedback from the process should always be used in order to produce high quality and open dialogue among the board members, or, in the case of director evaluations, with an individual director so that it can shed light on ways that the board or director can improve performance. It is precisely within the context of a facilitated dialogue on self-performance that both the board and its directors can grow a capacity for truth-telling. After all, if a board exists to provide a sage perspective on the reality that faces the organization, what better place to test and develop its governance skills than through honest dialogue about its own performance. When it does engage in such dialogue, the board and its directors are more likely to deeply understand and own the feedback as well as the implications.

### 3 Assessment Processes Should Be for Development and Growth Purposes

Director performance assessment is best accomplished primarily for purposes of development and growth, rather than for the purposes of simply assessing whether terms of directors will be renewed. Directors are most often selected for boards because they have highly honed skills in management or other professional expertise related to the company, but not necessarily because they have the skills and experience related to board governance. Consequently, the need for continuing development of directors, even among seasoned management professionals, remains significant because board skills often get developed late in the careers of professionals. In many cases, boards have ineffective internal director development

programs. While the broad objective is performance improvement for the board and its directors, the immediate objective is the growth and learning of the director.

### 4 Assessment Processes Should Lead to Tangible Steps for Improvement

Board and director feedback processes should always be driven through to the identification and implementation of tangible steps for improvement. This last step of the process must be included and incorporated at the outset of the process design in order to establish the expectation that the board and its directors will establish learning goals and make any necessary changes. These goals for the board and its directors should then be factored into future training needs. In addition, the corporate governance and nominating committee should take responsibility for laying out a process through which further board input and feedback is provided if significant structural changes are being made to the board.

### Conclusion

As questions may arise about the effectiveness of your board, it is wise for your board to get out front and establish an effective process that measures board and director performance. As we have outlined, the benefits of assessing effectiveness go far beyond that – these include growing governance capacity on your board and supporting change processes within the organization. In fact, once established, effective assessment processes can lead to powerful insights that transcend the knowledge of simply whether the board’s governance is “excellent.” It can enable the board to ask the far more penetrating question, “*Are we really making a difference in our organization’s performance?*”

