Why Boards Need to Revisit Evaluations

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Due to the financial crisis and extraordinary cases of government intervention, the traditional role of boards is threatened by an increased sentiment that directors are failing to do their jobs. Board evaluations can be a way to raise the bar to the next level and demonstrate effectiveness and commitment to improving.

In many cases, however, boards never receive the rigorous, independent evaluation they deserve. This raises questions about whether directors can really be confident that they are doing everything to ensure the board is the best it can be. It also spurs shareholders to ask whether the board is representing their interests.

In fact, according to a recent **PricewaterhouseCoopers** study, only 11% of board members feel that their whole-board evaluation process is "very effective," and 43% feel that there is significant room for improvement, rating their current process only "somewhat effective" or "not at all effective."

All evaluations are valuable, because they focus on board effectiveness. However, I have found that most evaluations are cobbled together in-house. Thus, the board is asking — and answering — its own questions.

Further, often you will find the confidentiality of evaluations is compromised. Everyone knows who says what. With in-house questionnaires or in discussions with consultants, directors are unlikely to criticize, because they might offend the leadership and that criticism could be traced back to them. This is especially so in individual evaluations, which are highly sensitive.

In order to realize the benefits of board evaluations, most companies have established rudimentary internal processes to accomplish this task. However, these processes — most of which are manual and ad hoc — do not provide the depth, breadth, standardization or repeatability necessary to fully reap the benefits of a formal board evaluation.

A good evaluation allows directors to focus on the business of the business and continuously enhance the productivity of the board. So, what are the 11 most important attributes of a good evaluation?

- **Objectivity**: Questions are developed independently of the company and the board
- **Benchmarking**: Internally and against best practices year to year
- **Professional Design:** The right questions are asked in the right way to ensure the greatest validity
- **Analytics:** Detailed, actionable results clearly highlight board strengths and weaknesses
- **Educational Accreditation:** Fulfills governance educational requirements
- **Anonymous. Confidential. Secure:** Privacy protection to promote candor and ensure corporate security
- **Customizable:** Questions specific to a particular board can be incorporated
- **Qualitative and Quantitative:** Strike a good balance between the two types of questions through scientific methodology
- **Board-Centric:** The board has exclusive control of the process and any action taken
- **Easy to Implement:** May be facilitated internally (self-directed) or externally
- **Separate Evaluations:** Tailored to the board, the committees and the individual directors

Boards need an objectively developed, easy-to-use evaluation system, so that the directors are not perceived as self-serving by asking the same questions they answer. The board should control the process, choose who responds — ideally all the directors and those who work with the board — establish the timeline, and add questions they feel are important to their company. The board should determine who should lead the discussion, whether internally or through an outside facilitator. In all cases, the board should agree on a plan of action to make any agreed-on improvements, to track them over the course of the year and to benchmark their actions year to year.

Above all, the evaluation process should be fast and simple to use and understand, yield actionable results and provide strategic input for each director.

Assessment is a positive. The focus is where it should be — on better boards. Evaluation is as valuable for good boards as it is for those boards seeking improvement. The opportunity is to move beyond compliance to a strategic board that adds value to the business. Good boards mean good companies. ■