

Stop Doing Annual Board Evaluations!



Start conducting board performance reviews that elicit helpful advice on how the board might work better.

The Governance Solutions Group is a board advisory practice with a focus on engaging directors in the annual board assessment process and guiding strategic governance decisions. Services are backed by years of experience and well-honed expertise. Clients include public, private and nonprofit company boards.

Sounds like the wrong thing to say when part of your business is serving as the independent facilitator for board evaluations. Or, maybe not.

Since 2003, the NYSE has required directors to perform an annual board performance evaluation and today it is a widely accepted practice for all boards. A lot has changed since 2003 - business is more complicated, and directors spend more time in meetings and other engagement activities. While board work has evolved over recent years, the method most boards use for the annual board evaluation has not. It's time for a change.

The "annual" board evaluation has become a rote "check-the-box" process. We are all a bit "survey fatigued," since we receive survey requests about ten times a day from our airlines, doctors and favorite retailers. To make matters worse for directors, the board often uses the same survey year after year (or worse, more questions are added each year). The survey answers usually show the board "agrees" directors are engaged, they are doing a good job and they ask challenging questions. Let's face it, in most cases these answers are not helpful.

So, how do directors ensure they receive valuable input that will actually help the board do its job better? Two answers: First, stop looking at the board evaluation as an annual process and begin mapping

out a longer-term board assessment plan that uses various methods to ensure useful director feedback is collected. One year the board might engage an independent governance expert to facilitate one-on-one interviews; the next year the board chair might conduct interviews; the next year a survey could be used. There is not one right way to create a multi-year board assessment process and the example shown in *Exhibit 1* will help generate ideas.

The essential elements of a board performance review (mapping the structure, preparing the tools, collecting and analyzing data, facilitating a board discussion) doesn't change when using a multi-year approach, only the methodology changes.

The second answer to "how does the board receive valuable feedback" is by using "pocket" or "pop-up" reviews. This might mean, at the end of each board meeting, asking simple questions such as "did we have the information we needed" and "what could we have done better?" For additional "pocket" review examples, refer to *Exhibit 2*.

Start conducting board assessments that elicit helpful information by mapping out a multi-year plan and using "pocket" reviews on a periodic basis.

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BOARD ASSESSMENTS – MULTI YEAR MAPPING EXAMPLE 1



BOARD PERFORMANCE

VALUATION	YEAR 1	YEAR 2	YEAR 3
Focal Point*	Board Evaluation What the board does well, what it could do better, what matters need additional agenda time	Follow-up from year one goals/results - Did we do what we said we were going to do?	Best practice considerations, governance “hot topics,” logistics, materials, communications
Facilitator	Independent governance expert	Board chair	Governance committee chair
Participants	Directors and senior leaders (Consider including outside counsel, the independent auditor, a key shareholder)	Directors only	Directors and senior leaders
Process	one-on-one interviews	one-on-one interviews	Survey – analysis by gov. comm. chair

* There is overlap in the year-to-year focal point. This diagram designates “deeper-dive” conversations.

COMMITTEE

VALUATION	YEAR 1	YEAR 2	YEAR 3
Focal Point*	Is the board committee structure the right one, is the committee executing against its charter?	Committee Evaluations What the committees do well, what each could do better, what matters need additional agenda time	Best practice considerations, governance “hot topics,” logistics, materials, communications
Facilitator	Independent governance. expert	Board chair	Governance committee chair
Participants	Directors and senior leaders (Consider including outside counsel, the independent auditor, a key shareholder)	Directors only	Directors and senior leaders
Process	one-on-one interviews	one-on-one interviews	Survey – analysis by gov. comm. chair

BOARD ASSESSMENTS – POCKET REVIEWS 2

VALUATION	PURPOSE	DESCRIPTION	TIMING
Meeting Evaluations	Asking questions at the end of each meeting helps to catch potential issues early on.	The board chair poses such questions as: (1) did we accomplish what we needed to accomplish; (2) did we have the right materials, in advance; (3) did we need to dive deeper on a subject discussed; (4) what could we have done better; and, (5) what should be on our next meeting agenda?	The executive session of each board meeting (and at committee meetings).
Board Culture Reviews	Periodic culture reviews help to correct breakdowns early rather than letting bad behavior drag on.	The board chair considers: A: How’s our board “chemistry?” B: Are directors getting to the meeting on time, “checking out” during meetings, leaving early? C: Is everyone prepared? D: Is everyone participating? Is anyone over-participating? After considering his/her own views, the chair often shares thoughts with the governance committee chair and the CEO to gain additional perspectives and determine if any action would help the board perform better.	Annually
Board Chair Review (Committee Chair Reviews)	Most chairs welcome suggestions to help the board work better and other “tips.”	Board members are asked, “how is the chair doing?” If using an outside facilitator for the board eval, these questions are often combined with one-on-one board conversations.	Annually/ Periodically
Peer-to-Peer Reviews	To gain feedback from peers	Directors often complete a matrix that includes a self-evaluation. Using an independent facilitator or aggregator is helpful.	Periodically
Director self-evaluations	Directors gauge their own performance. Often serves as a refresher on board responsibilities.	This evaluation is often used prior to the re-nominating process.	Annually