

**Board and Director Evaluations in the 21st Century:
A Practical Guide for Governance Committees**



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At A Glance

- Board and director assessments are conducted in almost all U.S. boardrooms. However, the initial practices many boards adopted are becoming outdated. Not only do directors want to derive more value from the evaluations, there is increasing pressure from regulators, shareholders and management for more credible and authentic processes for board performance management.
- There are several components to consider in designing a board evaluation: objectives, methodology, debrief and discussion of findings, and development of an action plan to implement initiatives derived from the evaluation that would further enhance the board's effectiveness.
- Although individual director evaluations are not required by either NYSE or Nasdaq rules, roughly a third of S&P500 boards now conduct them in addition to board and committee assessments. It is essential to design individual evaluations in a way that elicits constructive and specific feedback.
- When well-designed and effectively implemented, board and director evaluations can have a significant and positive impact on how the board functions and the quality of decisions it makes.

About the Author

Beverly Behan has worked with more than 100 Boards of Directors over the past 20 years in the United States and around the world. For the past two decades, she has not only watched but led much of the evolution in board and director evaluations dating back to 1996 when she conducted the first director peer review for a major Canadian bank (the first of its kind in North America) and incorporated management input into board evaluations in 2001 in her work with a Fortune 500 publishing company. She recently completed the board and director evaluation for one of the largest conglomerates in Southeast Asia.



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Historical Overview

The concept of board evaluations was first introduced in the British Cadbury Report of 1992. They migrated to the United States two years later when General Motors unveiled its corporate governance guidelines, which included the following provision:

21. Assessing the Board's Performance

The Committee on Director Affairs is responsible to report annually to the Board an assessment of the Board's performance. This will be discussed with the full Board. This should be done following the end of each fiscal year and at the same time as the report on Board membership criteria. The assessment should be of the Board's contribution as a whole and specifically review areas in which the Board and/or the Management believes a better contribution could be made. Its purpose is to increase the effectiveness of the Board, not to target individual Board members.

The General Motors guidelines were viewed as a “gold standard” in U.S. corporate governance at the time. Shortly after they were introduced, the California Public Employees’ Retirement System (CalPERS) wrote to 200 of the largest corporations in the U.S. challenging them to follow GM’s lead and adopt similar principles and practices for their boards. Many did – and the use of board evaluations became somewhat more prevalent in the U.S. – although by no means a common practice. A 1998 article in the *Harvard Business Review* described “appraisals in the boardroom” as “a recent and not-yet-widespread phenomenon”, citing a 1996 Korn/Ferry survey of Fortune 1000 directors which found that only 25% conduct board evaluations and even fewer (16%) had implemented individual director evaluations.

In February of 2002, when called to testify before the House Energy and Commerce Committee investigating Enron, Roger Raber, the former CEO of the National Association of Corporate Directors submitted 10 suggested governance recommendations to the Committee. One of these was: “*Boards should regularly and formally evaluate the performance of.....the board as a whole and individual directors. Independent directors should control the methods and criteria for this evaluation.*”

In 2003, The New York Stock Exchange picked up on Raber’s recommendation and those of other U.S. governance thought-leaders who had been advocating the use of board evaluations. The NYSE incorporated a provision into its governance rules requiring that all listed companies adopt and disclose corporate governance guidelines which must address:

“Annual performance evaluation of the board: The board should conduct a self-evaluation at least annually to determine whether it and its committees are functioning effectively.”

The NYSE rules also specified that the charters of the Audit, Compensation and Nominating/Governance Committees must address “annual performance evaluation of the committee”.

As the NYSE was prepared to de-list any companies that failed to adhere to its new governance rules, compliance was almost immediate: All or nearly all NYSE-listed companies began conducting board evaluations shortly after the regulations were issued in 2003. Although the Nasdaq's governance rules contained no similar provisions, many Nasdaq-listed companies also adopted board evaluations as a "best practice" soon thereafter as did many private companies and non-profit organizations.

Surveys conducted by the National Association of Corporate Directors underscore the rapid adoption of board evaluations during this timeframe. The 1999 NACD survey found that only 32% of American boards conducted board evaluations, whereas 85% had implemented the practice by 2003.

Notably, the NYSE makes no mention of individual director evaluations in its governance rules and the adoption of director evaluations has evolved more slowly.

Board Evaluation Today: Prevalent but Deficient

Board evaluations today are "nearly universal" according to Spencer Stuart's 2015 Board Index, which notes that 98% of S&P500 boards conduct some form of annual board evaluation. However, many boards today are refreshing their approach to board evaluation to make the process more effective.

It is notable – and commendable – that the NYSE governance rules do not prescribe the methodology that must be used. **This enables boards to establish their own evaluation practices and - most importantly - allows those practices to evolve and change over time.** Indeed, the initial practices many boards adopted for their board evaluations are now becoming outdated.

In a 2011 study of 770 directors of public companies conducted by the governance magazine, *Agenda*, participants were asked to rate the effectiveness of their board evaluation process. Only 30% felt their board evaluation was "highly effective"; the majority (60%) rated it only "somewhat effective". Notably, 31% of the respondents had changed the way they were conducting their board evaluation in the past 2-3 years – a clear correlation becoming readily apparent between those boards who had adopted a new approach and the "highly effective" scores.

Deficiencies in board performance management have also been highlighted in PWC's 2014 Annual Corporate Directors Survey. In this study of 863 public company directors, 36% expressed the view that at least one of their fellow board members should be replaced – and cited ineffectual board and director evaluations as two of the major impediments to addressing performance management issues.

The latest version of the PWC Survey (2016) found that only 49% took any action as a result of their board evaluation. Achieving a "high score" on a board evaluation - or completing the process with no action items - is not a hallmark of an effective board, but rather of a board evaluation designed to suppress constructive ideas. Most comprehensive board evaluations yield 3-5 worthwhile suggestions for board improvement; some of the most thoughtful and highly engaged boards can generate 8-10. The PWC finding underscores the opportunity that many US boards have to get more value from their board evaluation, particularly if their goal is one of continuous improvement.

The 2016 UK Corporate Governance Code provides the most directive set of regulatory guidelines yet on the topic of board evaluations. The new U.K. Code specifies that every board should “undertake a formal and rigorous evaluation of its own performance and that of its committees and individual directors” – **then goes on to specify that evaluations of Financial Times Stock Exchange (FTSE) 350 boards should be externally facilitated at least every three years.**

Companies are required to identify the external facilitator in their annual reports and a statement must be made as to whether the facilitator has any other connection with the company to ascertain independence. **All** United Kingdom boards – including the FTSE350 – are also now required to explain in their annual reports the methodology by which the performance evaluations of the board, its committees and its individual directors are conducted.

In a report released in September, 2014, the Council of Institutional Investors called for U.S. public companies to provide better disclosure of their board evaluation process, noting:

Shareholders value detailed disclosure of the board evaluation process when making voting decisions about directors. Disclosures about how the board evaluates itself, identifies areas for improvement and addresses them provide a window into how robust the board’s process is for introducing change. To be clear, shareholders generally do not expect the board to reveal the details of individual director evaluations; rather, they want to understand the process by which the board approaches the task of continually improving itself.

A letter from the CEO of Vanguard to investee companies on August 31, 2017 lists: “A high functioning, well-composed, independent, diverse and experience board **with effective ongoing evaluation practices**” first among the asset manager’s “four pillars” of governance at the start of this letter.

Designing an Effective Board Evaluation

There are several components to consider in designing any board evaluation: the objectives of the exercise, the methodology used to collect the feedback, the process to facilitate the board’s review and discussion of the results and the development of an action plan to implement steps derived from the evaluation process that would further enhance the board’s effectiveness and keep the board vibrant.

Objectives

The objectives of the board evaluation are the cornerstone for designing the process, itself.

Compliance: As discussed earlier, the widespread adoption of board evaluations in the US occurred in the wake of Sarbanes-Oxley Act of 2002, the NYSE governance rules of 2003 and a barrage of other regulatory requirements. Many boards implemented them with a compliance mindset: conducting an annual board evaluation was something that needed to be done for regulatory purposes. The use of perfunctory survey forms - most commonly involving a series of questions or statements that respondents rate on a scale of 1 to 5 with some write-in comments – became the approach that most boards adopted to comply.

If compliance is still the primary objective for the board evaluation, these sorts of surveys are generally the best design. They are quick, easy and cheap to administer – using either a pencil-and-paper format on an on-line tool. If there are serious deficiencies in the board’s operation – for example, the board is not in compliance with its governance guidelines or a board committee has failed to meet its charter mandate - such issues are likely to surface in this process. In most cases, however, very few issues will emerge. Charter compliance is a low-threshold test that most boards today should readily meet.

Continuous Improvement: Now that directors have had more than a decade of experience with board evaluations, their objectives for the exercise have begun to shift. Many have found that the process adopted 10 or 15 years ago has simply “run out of gas”; filling out the board evaluation forms is often referred to today as “box-ticking”. The exercise has become rote and seems to have little value. Rather than a compliance objective, board chairs, lead directors and/or nominating/governance chairs increasingly want to use the board evaluation in a more meaningful way – an exercise designed to make a good board even better and help a great board remain vibrant. Theirs is an objective of continuous improvement – and a very different type of board evaluation design is required to meet it.

Accountability: In recent years, many boards which seek to reinforce a culture of accountability in the companies they govern have also begun to view both board and director evaluations as part of that equation. Their board evaluation process has to incorporate sufficient rigor to credibly demonstrate the board’s commitment to holding itself and its members accountable for performance.

Methodologies

As there are no regulatory requirements for the way in which a board evaluation is to be conducted, U.S. boards have complete freedom to design a process that will best meet their objectives. They also have the liberty to experiment by redesigning their board evaluation process from time to time so as to keep the exercise fresh, engaging and productive.

Format: As noted earlier, the traditional approach to a board evaluation involves a survey form where directors are asked to enter a score from 1 to 5 on a series of questions relating to the board’s operations, typically with some space for write-in comments. The design nearly always consists of “closed ended” questions such as “Our board composition is appropriate” or “The pre-reading materials for board meetings are adequate” – a format that readily lends itself to numeric scoring or a “yes/no” answer. Proponents of the survey format enjoy its simplicity, low cost, and the fact that year over year comparisons of the scores can readily be made.

However, if the objective for the board evaluation is continuous improvement, the survey format has significant drawbacks. Closed-ended questions rarely yield insightful or actionable feedback. Board evaluation surveys typically result in numeric reports that are difficult to translate into meaningful action steps. (Table 1 contrasts the feedback generated on the topic of board pre-reading materials from a survey-based evaluation with write-ins with an interview-based evaluation format.)

Table 1

Survey Based Board Evaluation Format	Interview Based Board Evaluation Format
Topic: Board Pre-Reading Materials	Topic: Board Pre-Reading Materials
Question: Are you satisfied with the board pre-reading materials?	Question: Could the board pre-reading materials could be improved in any way?
Score: 2.7	
Write-In Comments: <ul style="list-style-type: none"> • “Improvement needed here” • “Materials are too lengthy” • “Not well organized” 	Interview Comments: <ul style="list-style-type: none"> • “There are no executive summaries and it takes me to page 30 before I really distill the key point. This wastes my time.” • “There is a lot of industry jargon and acronyms in the pre-reading material. It’s clear to me that management is simply repurposes the materials they took into the executive committee and not tailoring it for a board level presentation.” • “More use should be made of appendices for financial data. I want to see this data, but I would prefer five pages summarizing the key points; then let me refer to an appendix for more details if I want them.”

For this reason, many boards are replacing their survey forms with formats that tend to generate more constructive feedback and engagement. Alternatively, those who continue to use surveys increasingly supplement them with follow up phone calls to try to get more useful feedback, particularly on the low-scoring items. Others simply talk about low-scoring areas when reviewing the board evaluation results in a board meeting and try to generate more specifics from the group discussion.

Interviews are nearly always the preferred format for boards who are seeking to use their evaluation process for ongoing improvement. They are also far more engaging for participants, who typically enjoy taking the time (generally 45 to 60 minutes) to share their views about the board. Board members, by and large, are highly intelligent and accomplished businesspeople who nearly always have terrific ideas on how to make even a great board even better. The idea that directors are “too busy” to engage in this dialogue is a myth; most welcome these conversations and sincerely appreciate the opportunity to provide thoughtful feedback about various facets of the board’s operations.

However, an interview format will only be effective if a protocol of interview questions is developed at the outset and used consistently throughout. Otherwise, nearly every interview might cover different issues, making it difficult to reach consensus on the evaluation findings.

Topics: When most companies adopted board evaluations in the mid-2000s, they were awash in regulatory reform which required, among other things, governance guidelines, independent board committees and new committee charters. However, most boards have now expanded their evaluations to cover many facets of board performance beyond the limited purview of charter compliance.

Eight key components of board-building are nearly always covered in a board evaluation: board composition, board information (pre-reading materials and director orientation), board agendas and meetings, board leadership, board dynamics, the working relationship between the board and management and board processes (namely, how the board engages on strategy, CEO succession, risk oversight, CEO evaluation, etc.)

An evaluation of the board's committees – the eighth component - can either be included as part of the board evaluation or separate evaluations can be conducted for each committee. In either case, an evaluation of the board's committees typically makes some reference to the committee's charter [reference to NYSE rules] and then goes on to cover committee meetings, committee pre-reading materials, the support the committee gets from its executive liaison and outside advisors (compensation consultants, external audit, etc.) and the effectiveness of the committee chair (both in leading committee meetings and providing updates to directors who are not committee members).

In addition to these items, most boards find value in including some or all of the following questions:

- What do you see as the board's key strengths? What does this board do particularly well?
- What do you see as the board's most important contribution in overseeing the company over the past year?
- If you could change anything about our board to make it more effective than it is today, what would you change and why?
- If we were going to add just one new director to the board, what skills, experience or background would you prioritize in terms of director recruitment?

New Directors: Most boards are regularly recruiting new directors. A study of the S&P500 published in the April, 2014 issue of the Harvard Business Review found that companies whose boards added three or four new directors over a three-year period out-performed their peers financially. As such, the question inevitably arises as to how long a new director should have served on the board before participating in the board evaluation process. As a robust board evaluation often serves as a good team-building exercise for the board, finding a way to engage rather than exclude a new director in the evaluation process is highly recommended.

Some boards create a very limited and short interview protocol or questionnaire specifically for new directors that focus on director recruitment and orientation – areas where, of anyone on the board, they have the most recent experience. These questions can be further expanded, if appropriate, to ask about first impressions of the board’s working dynamics, the board-management relationship, best practices from other boards they are familiar with, etc.

Senior Management: As most U.S. Chief Executive Officers serve as members of their governing boards, they routinely participate in the board evaluation process. Over the past decade, however, it has become increasingly popular to gather feedback from top company executives who are not board members, but regularly attend board and committee meetings. While some directors bristle at the thought of management “evaluating” the board, most find it illuminating to include management feedback in the board evaluation. Senior executives nearly always provide perspectives that complement those of directors and frequently surface new ideas that the board finds very worthwhile; this accounts for the expansion of the practice in recent years.

Including senior management in the board evaluation can be particularly important if accountability is a key objective. It demonstrates the board’s openness to feedback and nearly always earns kudos from the executive team. However, it’s important to limit management participants in board evaluations to those who regularly attend board and committee meetings– a point that sometimes needs to be pressed with the CEO, who may seek to include all of his/her direct reports in the process. Typically there are three to five executives who regularly attend board meetings, including the Chief Financial officer (CFO) and General Counsel. Other executives who report to the CEO but only present to the board once a year, for example, may end up answering board evaluation questions based on speculation instead of actual experience. The board evaluation interview protocol will need to be tailored slightly for use with management if it is decided to solicit their input. While the “management version” should parallel the “board version”, certain topics – such as CEO succession planning and executive sessions – are sometimes removed.

Decisions also need to be made as to whether and how the results of the board evaluation will be shared members of management who participated in the evaluation. Some boards incorporate no follow up whatsoever with management; others invite those executives who participated in the board evaluation to attend portions of the board meeting where the evaluation results are discussed. Certain issues, such as enhancements to board pre-reading packages and improving the flow of presentations in board meetings, lend themselves particularly well to a joint board/management discussion.

External Facilitators: The provisions of the *2016 UK Corporate Governance Code* which require board evaluations of FTSE 350 companies to be externally facilitated every three years are clearly the direction board evaluations are heading into the 21st century. About 19% of the largest public US companies used an outsider for their board evaluations in 2013. In a Wall Street Journal article, Spencer Stuart predicted that 35% of major American companies will follow suit by 2020.

An external facilitator may be useful to consider where the board's objectives are continuous improvement and accountability. An experienced third party can nearly always elicit more candid feedback than even the most well-respected Board Chair. This becomes even more important if an interview format is used and expanded to include the views of senior management beyond the CEO.

Conducting an externally facilitated board evaluation every year is probably unnecessary. After all, a well-executed board evaluation should yield an Action Plan that may require 18 to 24 months to implement; repeating the process a year later typically delivers only marginal returns. Board evaluations in the intervening years are generally conducted internally. The U.K. Code requires external facilitation every three years which is the model most U.S. boards that use an external resource have also adopted.

Fees for external facilitation of a board evaluation vary widely. In an article on the growth of this trend in the February 17, 2015 edition of the Wall Street Journal, journalist Joann Lublin found that professional fees for an external board evaluation ranged from \$25,000 to \$250,000. At the very high end, an individual director evaluation component would likely be included within the scope of work, involving the third party in delivering individual feedback to the directors one- on-one. (Individual director evaluations are discussed further in the section on designing director evaluations).

Board Observation: Where an external facilitator is used to conduct the board evaluation, some boards include a board observation component in the exercise. Attending all or part of a regular board meeting to observe the board at work can provide good context for some of the feedback being collected about board meetings, dynamics, presentation and other issues. However, some boards who've tried it found certain directors "playing to the camera" – trying to influence the "evaluation" by suddenly becoming far more engaged than their peers had ever seen them when the third party entered the boardroom. Others have a concern that the third party's presence may actually impede discussion on highly confidential and sensitive issues during the meeting.

One of the biggest concerns with incorporating a board observation into the process, however, is timing. Many boards with directors residing across the country –or, increasingly, around the world - schedule board evaluation interviews to coincide with a board meeting; this facilitates in-person discussions (always preferable for richer feedback) while reducing travel costs. If the board observation occurs at the same meeting, this can work well. However, if the observation component is scheduled at a subsequent meeting – and the board debrief of evaluation results at the meeting thereafter, the interview feedback can become somewhat stale. A period of 6 months, in some cases, may have elapsed between the interviews themselves and the evaluation report and discussion.

Using the Board Evaluation: Debrief and Action Planning

A great deal of thought and discussion typically goes into the feedback collection mechanism for the board evaluation. Less attention is often paid to what may be an even more important consideration: how to use the results of the board evaluation constructively.

Interview-based board evaluations typically yield rich and highly specific feedback that readily lends itself to good discussion— and nearly always surfaces many more issues than a survey form. At least three to five potential opportunities for further board enhancement should emerge from this process; boards with highly engaged and thoughtful directors often surface 8 to 10. If no issues surface, this generally means that the board evaluation was crafted with many closed-ended questions and failed to stimulate good thinking about potential enhancements to the board. This may not be problematic if the objective of the board evaluation is primarily to meet compliance objectives but frustrating for those who seek to use the process for continuous board improvement.

Once a report summarizing the results of the board evaluation has been developed, it is generally reviewed at the outset by board leadership: The chair of the board or lead director, chair of the nominating/governance committee and the Chief Executive Officer; sometimes the general counsel and/or corporate secretary are also included in this preliminary review. A determination can then be made of those issues worthy of discussion with the full board and/or the nominating/governance committee and how much time should be allocated on the board agenda for a working session of the board to discuss the evaluation results. Depending on the number of issues surfaced, the board's working session can range from 30 minutes (for a compliance focused, survey based board evaluation) to 60-90 minutes (which is typical for an interview format).

Distributing the board evaluation report in the pre-reading material makes better use of the board's time in the working session, as all directors will have read the material and can come into the session prepared to discuss the priority issues. Goals of the working session with the board are generally:

1. to have a good, interactive dialogue of the issues surfaced from the board evaluation that may yield worthwhile opportunities for productive changes;
2. to explore alternative approaches that other boards have adopted to address similar issues; and
3. to reach decisions as to the best way to approach each issue, if at all.

At the conclusion, an action plan is often created to capture key decisions. The board can use this as a roadmap over the next 12 to 18 months to move forward in implementing those ideas for constructive changes that were deemed worthwhile. **Samples of board evaluation action plans are provided in Appendices A-1 and A-2.**

Individual Director Evaluations

Individual director evaluations have never formed part of the regulatory requirements of either of the U.S. stock exchanges (NYSE or Nasdaq). However, Spencer Stuart's 2016 Board index found that 32% of S&P500 companies conduct individual director evaluations in addition to evaluations of their boards and board committees— a significant jump compared with only 17% in 2009. By contrast, a 2017 Agenda survey found that 70.7% of US boards claimed to conduct individual director evaluations – up from 61.6% in 2016. While the results of the two surveys differ markedly, they both underscore the increasing prevalence of US boards adopting individual director evaluations.

Notably, British companies are subject to regulatory requirements in this regard – the UK 2016 Corporate Governance Code provide: “Individual evaluation should aim to show whether each director continues to contribute effectively and to demonstrate commitment to the role (including commitment of time for board and committee meetings and other duties)”.

Designing an Effective Individual Director Evaluation Process

Objectives

Professional Development: Is the primary objective to provide constructive feedback to board members for their professional development as directors? If so, then it is essential that the process be designed to generate specific and practical feedback that board members can readily understand and use. Interviews are typically the best method to collect feedback for this purpose - they allow for probes and often generate useful examples that the director immediately understands and relates to when receiving the feedback. Numeric scores and generalities such as “Great director” or “Tends to repeat himself” often fall short and can even be confusing.

Re-nomination: Will the results of the director evaluation be factored into decisions by the nominating/governance committee about director re-nomination? They do not have to be. Some boards who primarily use their director evaluation for professional development design their process so that individual board members receive their own feedback but it is not shared with anyone else. Typically, directors take their fellow board members' feedback very seriously and, if it is delivered with a level of actionable detail, make changes as a result, even if no one else knows what it says. Director resignations have even occurred in appropriate circumstances after a process of this nature.

However, if a key objective of the director evaluation is to have the process serve as a tool in board re-nomination decisions, a summary of the individual feedback needs to be shared with the nominating/governance committee - or at least with the board chair or lead director - so that it can be used in this way.

Many boards have both objectives for their director evaluations - and the two are easily combined.

Collecting Feedback: Methodologies

Self-Evaluation: The practice of conducting a director evaluation by having board members simply rate themselves against a list of questions such as “I come to board meetings well-prepared” with nothing more has all but disappeared from typical practice. Popular 10 years ago, this approach fails to meet any of the objectives noted earlier and has now largely faded.

Peer Evaluation/ Peer and Self-Evaluation: Collecting feedback from each board member (including the CEO, in most cases) about the performance of fellow directors is the process commonly referred to as a “director peer review”. Long considered the most credible and valuable approach to director evaluation, the peer review (or peer review coupled with a self-evaluation) has now become viewed as the best practice in individual director evaluation.

Typically, the only difference between a “peer evaluation” and a “peer and self-evaluation” is that the latter case requires that each director also conduct a self-evaluation on the same questions used in compiling peer feedback. The individual’s self-assessment is then compared with peer feedback solicited from other board members. Asking a board member to self-reflect on strengths and weaknesses as a director can be a great way to open up an interview for a peer evaluation. However, in a survey format with numeric scoring, embarrassment can sometimes occur in situations where the directors rate themselves significantly higher than do their fellow directors.

Surveys vs Interviews: When surveys are used in a peer review, board members typically rate their fellow directors with a numeric score against a series of closed-ended questions that can cover everything from preparedness for meetings, relevancy of questions/comments, responsiveness to fellow directors and management outside of board meetings, etc. Some boards create a set of Director Expectations that the evaluation is based on. A sample of Director Expectations and further commentary on this practice are found in Appendix B. Interestingly, many boards use an interview-based board evaluation that includes interviews with senior corporate management as their vehicle to create Director Expectations and Expectations of Management in Working with the Board.

Although director evaluations conducted using a survey typically include some space for “write in” comments, they are often quite general and lack the level of specificity to be actionable. If the objective of the director evaluation is primarily for re-nomination, this may be fine. However, if professional development is also important, this format will probably disappoint. As in the case of board evaluations, a peer survey is sometimes supplemented with phone calls to individual directors. The upside of the survey format is that the process can be designed to ensure confidentiality even if it is internally administered, which can often be important in view of the sensitivities involved in director evaluations.

Director peer reviews that provide individual board members with specific, constructive feedback tend to be most valuable if the board’s overriding objective is professional development. This is nearly always accomplished with an interview format. Some boards use a series of questions derived from their Director Expectations to frame the interview. Others simply ask about each director’s strengths and for practical advice on any areas for improvement that could make the individual even more

effective as a board member. An important part of the interviewer's job is to probe deeper where general responses are given so as to surface tangible examples and specifics that the recipient can readily understand and, if appropriate, act upon. This is equally important whether the interview is conducted by an external facilitator or a member of the board, such as the board chair, lead director or chair of the nominating/governance committee.

Frequency: As there is no U.S. stock exchange or other regulatory requirements governing individual director evaluations, the frequency with which they are conducted by any boards that have adopted this practice can vary. Some boards conduct a director evaluation process annually (often in conjunction with their board evaluation process), while others do it every three years. Some companies with staggered boards evaluate only those directors who up for re-nomination in the following year.

Delivering Feedback

As noted earlier, directors typically find the most value in feedback that is specific, constructive and actionable. An example of an individual director feedback report aimed at achieving this is found at Appendix C. All directors have their strengths and even the best have opportunities for enhancement. Perhaps ironically, it is often the best board members who most appreciate practical ideas for improvement; those who are struggling with their board role sometimes become defensive. If the director evaluation is comprehensive and well designed, *all* board members should receive both feedback about their strengths and contributions as well as constructive suggestions for improvement.

In Conclusion.....

Board and director evaluations are in a state of evolution - not only in the United States but in boardrooms around the world. Although assessments are conducted by nearly every board today, many directors want to derive more value from the process – and to that end are changing their approach with a view to making these exercises more engaging, constructive and impactful. There is also increasing pressure on boards to do so – regulators, shareholder activists and even management have become more attuned to the issue of board and director evaluations in recent years and are demanding more credible and authentic processes for board performance management.

When well-designed and effectively implemented, board and director evaluations can have significant and positive impact on how the board functions and even on the quality of decisions it makes. Boards are already replacing - and will continue to replace - the increasingly outdated formats adopted in the early 2000s with new approaches that enable them to better fulfill these objectives.

Appendices

Appendix A: Sample Board Evaluation Action Plans

Appendix B: Sample Director Expectations and Board
Expectations of Management

Appendix C: Sample Individual Director Feedback Report

Appendix A-1

ABC Company: SAMPLE Board Action Plan

The following is a summary of key decisions/discussion items from a review of the 2014 Board Evaluation Report at the January 20, 2015 board meeting.

Strengths/Contributions

- Overall, the board evaluation found that the board of ABC was very high performing and, perhaps most importantly, has made its most significant contributions in the key areas of strategy and CEO succession planning. Its major and unique strengths currently lie in two areas: The composition of the board (which is now felt to be optimized) and the board dynamics which are open, engaged, challenging but respectful and highly energized. This board adds tremendous value for the senior management team of ABC who truly use the board as a “thought partner” on significant issues and value the perspective, input and challenge that the board provides.

Director Recruitment/Orientation Process

- Although the recent director recruitment process was lengthy, the outcome was considered so positive that there were no strong suggestions made for change. Rather, in the next round of director recruitment, the Governance Committee is asked to bear in mind some of the frustrations/downsides of a lengthy process and look for ways to shorten it up without compromising the process in any way.
- The idea of reworking the orientation program to include a menu from which incoming directors can design their own orientation and offering a second follow-up session 6-9 months later received strong support. The Governance Committee Chair will take the lead in working with the corporate secretary to develop this concept further.

Pre-reading Materials

- Directors would like to see the pre-reading materials organized in a format that follows the agenda with materials designated as “For information only”, “For discussion at the meeting” and “For a decision at the meeting”. It would also be useful to include an organizing memo from the CEO at the start of the materials.
- The Strategic Planning document in the pre-reading for the January offsite was considered a good model to use in terms of how materials should be presented.
- If tabs are included in the board book but there is no report, please indicate this by noting “Verbal report at the meeting; no pre-reading” or similar. Otherwise, board members become concerned that they are missing materials.

Board Meetings

- There was a strong feeling that at least one board meeting each year should be held at one of the company facilities. The Chairman will work with the CEO to see if this can be arranged for one of the board meetings scheduled later in the year and the practice continued on an annual basis.

Appendix A-2

XYZ Company: SAMPLE Board Action Plan

Board Information/Pre-Reading Packages

- A dossier on [XYZ's major competitor] will be included in all board pre-reading packages; analysts' reports on [XYZ's major competitor] will also be provided to board members as they are available.
- Pre-reading materials will also include a summary of the company's major investors, discussing any notable changes in investor share ownership from the prior quarter.

Compensation Committee

- There is a strong desire for non-committee members to get more information about the Compensation Committee's work, particularly before they are asked to sign off on the proxy where the compensation information is disclosed. Three alternatives were discussed for this:
 - Putting an item on the January (or another) board meeting agenda for a discussion of Compensation Committee issues scheduled for 1-2 hours led by the Compensation Committee Chair. The compensation consultants would attend and make a presentation to the full board at this session.
 - The Compensation Committee Chair will prepare a summary report for non-committee members in November outlining key facets of the compensation program for 2016. Following distribution of the November report, the Compensation Chair will chair a conference call of all board members to discuss it.
 - Alternatively, following distribution of the summary report in November, board members can simply call up the Compensation Committee Chair with questions rather than organizing a board conference call.

The Compensation Committee will further discuss these alternatives at its meeting in May and advise board members what they recommend in this regard.

Board Meetings

- Management seems to spend considerable time in the meetings reviewing the same information that is included in the board books. It would be helpful to focus management on highlighting exceptions when presenting to the board: Why is this a big issue? What is the meaning of this change in the finances? What happened between the last board meeting and this one that we didn't expect? The CEO agreed to convey this feedback to the senior management team before the next board meeting.
- As there appears to be strong interest in adding a 5th board meeting focused as a strategy offsite (with NO operational items on the agenda), the Chairman and CEO will explore this possibility for 2015 and will definitely incorporate it into the board schedule in 2016.

- Board members would like to use the board dinners to interact with each other and with management rather than conducting board business that has “run over” from the main board agenda, as has occurred at the last three dinners. It was agreed to extend the board meetings by one hour from 3 to 4 pm to facilitate this (ending no later than 4:30 pm so that directors can catch flights home).

CEO Evaluation

- In response to feedback that the CEO evaluation process seems too informal and unstructured, the following CEO evaluation calendar has been developed for 2015/6:

Timeframe	Activity	Responsibility
Dec 1, 2014 – Feb 1, 2015	Set CEO performance objectives for 2015 and determine performance measures	-Initial discussion – Chairman, CEO and Chair of Comp -Discussion in executive session of CEO and full board to confirm
Aug 1 – Sept 1, 2015	Informal mid-year discussion relative to objectives	-Initial discussion – Chairman, CEO and Chair of Comp -CEO and full board in executive session
Dec 1, 2015 – Feb 1, 2016	Set CEO performance objectives for 2016 and determine performance measures	-Initial discussion – Chairman, CEO and Chair of Comp -Discussion in executive session of CEO and full board to confirm
Mar 15 – April 15, 2016	-Gather performance feedback -Performance evaluation discussion with CEO	-Chairman and Chair of Comp gather feedback from all board members on CEO’s performance in working with the board along with other information on performance relative to financial, strategic and other goals -Performance evaluation discussion with the CEO

Appendix B

Overview

Many boards establish expectations for their directors which are sometimes used as a reference point in individual director evaluations. The greatest value from this exercise is derived from engaging all board members in creating and subsequently reviewing /updating their director expectations, rather than simply adopting a set of expectations crafted by another board (like these or others). At the same time that the issue of director expectations is discussed/ reviewed, it can also be worthwhile to create a set of expectations that the board has in working with senior management. Samples of both are provided.

Appendix B-1: Expectations ABC Directors

The following Expectations of the Board of Directors was developed from interviews held in December, 2014 with all ABC board members and members of ABC's management team who regularly interface with the board.

- **Preparation:** Prepare for board and committee meetings by reviewing the pre-reading materials in advance and reflecting on the key issues to be discussed. Come to the meetings ready to address the agenda items and get engaged in the discussions and debates.
- **Participation:** Actively participate in the board and committee meetings, drawing on your experience and expertise to bring relevant and constructive insights and perspectives into the board dialogue. Avoid dominating the board dialogue and/or speaking to “get your name in the minutes”. Offer differing or contrary points of view where appropriate.
- **Attentive:** Remain attentive and conscientious throughout board and committee meetings, avoiding the temptation to be distracted by electronic devices etc.
- **Integrity/Confidentiality:** Always act with integrity and ethics. Focus on the best interests of ABC and its shareholders in board decision-making. Respect the confidentiality of board discussions and ABC business issues.
- **Avoid Micro-Management:** Focus your questions and comments at a governance/oversight level.
- **Say It in the Meeting:** Express your views in the meeting, not after the meeting is over.
- **Mutual Respect:** Engage with management and fellow directors in a respectful manner even when making a counterpoint or expressing strong disagreement. Make an effort to build a constructive working relationship with fellow board members and members of the ABC management team.

- **Responsiveness:** Be responsive in replying to management requests and inquiries between meetings, wherever possible responding within 48 hours, even to acknowledge receipt of the request if it is not possible to attend to it within that timeframe.
- **Keep Current:** Make an ongoing effort to keep abreast of developments in [ABC's industry], the Canadian economy, markets in regions where ABC does business and developments in public company governance. Make an effort to listen in to ABC's earnings calls with the financial analysts.

Appendix B-2: Board Expectations of ABC Management

The following Expectations of the ABC Management Team in working with Board of Directors was developed from interviews held in December, 2014 with all ABC board members and those members of ABC's management team who regularly interface with the board.

- **Leadership and Managerial Competence:** Run the company in a competent, businesslike way, providing leadership to the people who work at ABC to achieve strategic and financial goals.
- **Accountability:** Take responsibility for ABC performance and the achievement of corporate objectives; follow through on commitments.
- **Integrity:** Operate with ethics and integrity in running the company and in dealings with the Board.
- **Preparation:** Put effort into the pre-reading materials in preparation for Board and Committee meetings so as to make the best use of the board's time. Focus on the key issues, provide not just data and information but your insights into what the data means and the alternatives you have considered in making your recommendations to the Board.
- **Provide Industry Context:** Provide the board with information that enables directors to compare ABC with competitors in [ABC's industry] in terms of financial performance and other key metrics.
- **Provide Strategic Linkage:** Highlight the linkage between management proposals and ABC's strategic direction and strategic goals in preparing board materials and presentations.
- **Avoid Micro-Management:** Focus your pre-reading materials, board presentations and discussions at a governance level; try to avoid dragging the board into management details.
- **Transparency/Mutual Respect:** Be candid in sharing your thinking with the board and in seeking their views on issues where they can be a true strategic thought partner to management. Don't get defensive if a board member asks a tough question or challenges your thinking.
- **Don't Surprise the Board:** Let the board know about important issues which are emerging – both potential problems and "big wins"- in a timely fashion.

Appendix C

SAMPLE Individual Director Feedback Report: XYZ Corporation

Prepared for: Jack Jones, Chair of the Compensation Committee

This report provides a summary of key themes from the director peer evaluation interviews conducted with all members of the Board of Directors of XYZ Corporation in October, 2014. Interview comments were summarized and analyzed from which key themes were derived relative to each director's strengths, major contributions and potential areas for further improvement. To provide directors with greater insights on each theme, sample interview comments are also provided in italics.

Major Strength

Jack is extremely articulate. He is readily able to synthesize ideas and effectively summarize key points which board members find extremely valuable in their discussions and deliberations.

Related Comments from Peer Interviews:

- *“Jack is very articulate and expresses himself extremely well. At every nearly meeting, he'll find an opportunity to summarize a rather unwieldy board conversation in a way that brings closure to the issue. That's a real gift and it really helps the board come to closure.”*
- *“Jack is very organized in his thinking and very articulate in his He's clearly thought about the issues in advance and has put time into considering how to address them in a thoughtful and structured way in the meetings.”*
- *“Jack has an ability to take an issue and synthesize it down to a couple of crisp sentences. That's an ability that I don't have and I really admire it in someone who has it.”*
- *“Jack has very clear thinking and is able to put a tight spin on things. For example, Jack will summarize a conversation in the boardroom in a succinct way that really gets to the essence of it. His comments really provide focus and when he makes them I always find myself nodding and thinking, “Yes – that's it exactly. He nailed it!”*

Most Significant Contribution

Jack is viewed as having done a “masterful job” in chairing the Compensation Committee, which nearly all of his peers highlighted as his most significant contribution to the board.

Related Comments from Peer Interviews:

- *“As Chair of the Compensation Committee, Jack picked up a real mess and straightened it out. Our compensation philosophy had no real rationale; it seemed to be a hodge-podge of different programs without an overarching focus in terms of what we were trying to accomplish with*

executive pay. Jack was able to bring order out of chaos and I think now we are all very happy with where things stand on executive compensation.”

- *“The Compensation Committee is difficult to chair. Opinions run a wide spectrum and it can get emotional at times, especially on the part of management. Even when we decide on something, there continues to be a tenor of “second guessing” those decisions. I think Jack has done a masterful job of running that committee and overcoming many of these challenges.”*
- *“Jack keeps in touch with what’s happening not only in the compensation arena, generally, but in terms of what other companies in our industry are doing with their compensation programs. This has impressed me and underscores Jack’s level of commitment as Compensation Chair.”*
- *“Jack has done a great job as the Chair of the Compensation Committee. He takes a very even-handed approach in chairing the committee – which is not always easy- and has been able to work extremely well with management on issues that are sometimes sensitive and emotional.”*

Potential Areas for Enhancement

Jack comes so well-prepared for the Compensation Committee meetings that a wide-ranging discussion does not always ensue on important issues. This may be appropriate in many instances. However, on the some of the more controversial issues, Jack may find it helpful to be aware of this and occasionally modify his style.

Related Comments from Peer Interviews:

- *“I realize there has been a lot of work done in advance of the Compensation Committee meeting by Jack, by the head of HR, by the compensation consultants etc. But sometimes we’re up for a discussion of an important issue but that discussion never materializes. It’s “baked” when it comes into the meeting. I don’t feel we’re having the level of broad dialogue on some issues that we might.”*
- *“Jack comes into the Compensation Committee with his mind made up about what needs to be accomplished – which is exactly what I expect in a good committee chair. However, he needs to focus on creating an atmosphere in his committee meetings that is more conducive to dialogue and discussion.”*
- *“Jack needs to actively work at generating more discussion in the Compensation Committee.”*

