

## Accelerating board performance through assessments

Progressive boards view assessments as a vital tool for maximizing their effectiveness. Assessments can help identify areas for improvement and performance issues and facilitate the development of approaches to addressing those issues.

Board evaluations can also bolster succession planning by identifying gaps in the perspectives and specialized skills necessary to a company's changing needs. At the same time, assessments can help companies identify when changes to board composition are warranted to strike a balance of fresh perspectives and institutional knowledge.

Due in part to assessments, boards are increasingly looking to recruit directors who are global and diverse (in not only skills and experience but also in terms of gender, ethnicity and other aspects), and/or who have experience in technology, social media and cyber-related areas.

Institutional investors, too, are paying closer attention to board effectiveness – and they have a growing voice in the boardroom. Investors are more closely scrutinizing a range of board related issues, such as board composition and refreshment – and they are increasingly viewing assessments as critical contributors to board and director effectiveness. Today, if boards aren't effective and don't get their composition right, an investor may advocate change.

At the same time, policymakers are seeking more effective disclosure on key areas of interest for investors. In response, some companies are voluntarily disclosing more information about their board assessment processes.

### A strategic opportunity

Through the use of assessments, boards may better evaluate and better understand the functioning of the full board and confirm that individual director competencies are aligned with corporate priorities and chief areas of stakeholder concern – and are fully understood, recognized, utilized and valued.

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Assessments go beyond simply confirming that the board members have the right skills and experience; they also help boards evaluate how effectively they are working together to manage all of their responsibilities, including strategic considerations, risk oversight, succession planning and capital allocation. Strategic benefits of a robust board assessment process may include:

- ▶ Providing clarity on the roles of directors and the board as a whole, accelerating decision-making and avoiding unnecessary director conflicts
- ▶ Strengthening understanding of business operations, customer experience and people management practices as the organization evolves
- ▶ Identifying gaps in knowledge and expertise related to rapid changes in technology, including digital, cyber and other associated risks and opportunities for the company
- ▶ Developing deeper understanding of the sector or industry dynamics and competitive threats locally and globally
- ▶ Testing the board's understanding of key shareholders' views on the company's strategy and governance, and its preparedness for potential challenges from activist investors
- ▶ Identifying process management improvements to enhance effective board preparation, meeting management and communications
- ▶ Fostering alignment and agreement on company purpose and strategy, easing a board's ability to prioritize issues and set the near-term agenda
- ▶ Protecting against weak team dynamics that fracture boards and lead to power struggles

### Key elements of board effectiveness

The definition of roles, responsibilities and expectations is an important component of evaluating board performance. While boards have the option of performing the "bare minimum," doing so misses an opportunity to enhance performance and transform a good board into a great one. An "effective board" needs to be considered in terms of the business, organization and market dynamics.

In carrying out their oversight duties, some boards may focus primarily on compliance. However, higher level, boards are deeply involved with company strategy and implementation. These boards are more results-oriented, and they set annual and longer-term objectives that are outcome-based. And even more progressive boards use performance evaluation tools not only to

assess their own performance against a certain set of metrics and identify areas of improvement – but also to benchmark their performance against leading practice.

There are several elements of board effectiveness to consider:

- ▶ Board/committee structure and processes
- ▶ Board/committee composition
- ▶ Legal entity and group structure
- ▶ Roles and responsibilities
- ▶ Behavior and culture
- ▶ Director training and development
- ▶ Oversight of control functions
- ▶ Oversight of reporting, disclosure and performance

## Different approaches and considerations

A commitment to regular and robust evaluations can help a board to quantitatively and qualitatively assess its performance, identify strengths and opportunities for improvement and evaluate progress over time. Evaluations also can help boards to refine current and forward-looking performance goals.

Many boards have traditionally followed a checklist approach to self-assessments, but an emerging trend is to use evaluations as a thought-provoking process – one that pushes boards to actively reflect on the current environment and consider new ways to optimize function and performance.

A successful evaluation of the board should include consideration of:

- ▶ **What is being measured** – objectives and competencies that the board wishes to assess
- ▶ **Who conducts the evaluation** – an independent board or committee leader, management representative who supports the board (such as the general counsel) or external third party
- ▶ **Who is evaluated** – board, individual directors, committees, board and committee leaders
- ▶ **Who participates in the process** – directors, management, others who regularly interact with the board (such as the corporate secretary, CFO, internal audit, human resources, outside counsel)
- ▶ **How the evaluation is conducted** – electronic survey tool, written questionnaire, orally facilitated individual interviews, checklist form and/or open answers
- ▶ **How often is the evaluation completed** – annually for board, biannually (or more or less frequently) for committees, biannually or triennially (or more or less often) for third-party facilitated assessments
- ▶ **How the board discusses and addresses the results** – who on the team is responsible for developing a process for evaluating responses and aggregating results, facilitating discussion among directors and developing an implementation plan for changes

In addition, it is important that an independent board member be appointed to lead the process from beginning to end – even if an external firm is facilitating and aggregating responses from board members. Also, the advice of counsel should be sought for approach, access and record retention procedures.

An important component of board evaluations is full candor during the self-assessment process. While there are different ways for this to be achieved, three approaches are emerging as leading practice: conducting individual and peer assessments, 360° feedback and the use of third-party facilitators.

## After the board assessment

A key component of an effective evaluation process is the follow-up. The appointed leader of the board assessment process should identify common themes and notable differences, create an anonymous summary of the main findings and schedule a board session – and individual director conversations as needed – to discuss the results.

Board members should discuss, agree upon and assign any necessary action items based on evaluation results and recommendations. It is also important to establish target dates for completion or additional discussion.

Performance evaluation is a key means by which boards can recognize and correct corporate governance problems, capitalize on the board as a strategic asset and add real value to their organizations.

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