Increasing the ROI on Board Evaluations

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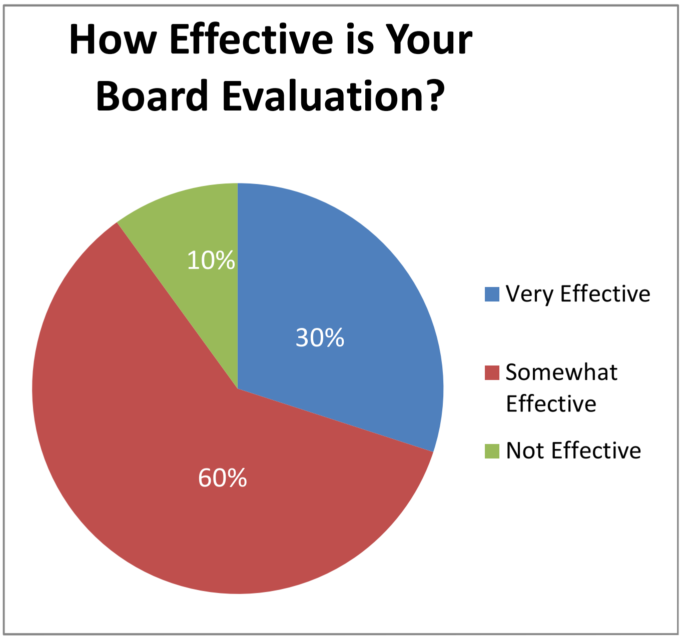
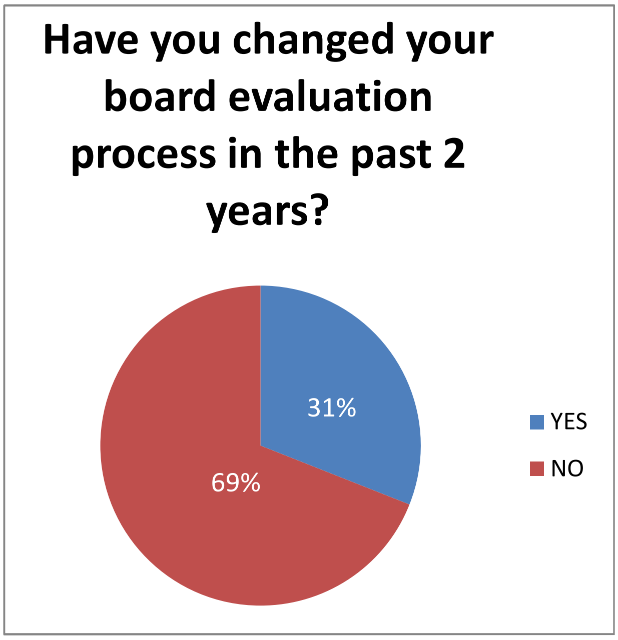
Board evaluations started off as a good idea – an opportunity for the board to reflect on its performance and consider areas for further enhancement. But in the past 10 years, since this once "best practice" became widely adopted, it has largely devolved to a box-ticking exercise. Rather than generating constructive ideas from self-reflection, it's become little more than a compliance item whereby the Governance Committee satisfies itself that there are "no issues here" and quickly closes the file.

In recent years, however, progressive boards have been introducing significant changes to their board evaluation it in an effort to derive greater value from it. And it seems to be working! A survey of nearly 800 U.S. public company board members conducted by ***Agenda*** magazine found that 70% of directors found their board evaluations either "somewhat effective" or "not effective" but 30% found them "very effective". Notably, there is a direct correlation between those who found their board evaluation "very effective" and those who have changed their board evaluation process in the past 2 years.





What Changes Make a Difference?

Moving away from the use of a survey form to an interview-based board evaluation process is the most significant shift– and the one that makes the biggest difference. When I conducted my first board evaluation in 1996 for the board of the Bank of Montreal, we used surveys - and thought they were progressive. At the time they were. But I have rarely used a survey format for a board evaluation in ten years. They just don't generate the kind of feedback necessary to have meaningful discussions about how the board can further refine its performance. For example, having someone circle 1-5 in response to the question "I am satisfied with the board composition" with a write-in of "Good collegiality" leads to a far different discussion than sitting down and asking each board member, "If we were going to add one new director to the board, what skills, experience or background would you find most valuable to add? Why do you think this is important? "

Once a board does a comprehensive interview-based evaluation, it becomes readily apparent that more value and insights are derived from this process than any quantitative survey analysis can offer.

Should Management Be Involved in the Board Evaluation?

Yes – and no.

In 2001, I had the privilege of working with the Board of Directors of the New York Times Company. As an experiment, we extended participation in the board evaluation top company executives. This yielded such worthwhile feedback that I rarely conduct board evaluations any more that don't include senior management. It is illuminating to understand how the board actually adds value for management – something many directors assume they know. However, when the question is actually posed to the executive team, the results are often quite different than expected and yield good insights.

It's important, however, to limit this involvement to company executives that regularly interface with the board, such as the CFO and General Counsel who typically attend nearly every board meeting. Those who may be at the same level in the org chart but have had insufficient opportunity to see the board in action and will make assumptions about the board that can often be inaccurate.

Where management should ***not*** be involved is in conducting the board evaluation – at least not what I'll call "the major board evaluation". The type of board evaluation I'm describing in this article is a comprehensive process that can be very useful to conduct every 3 years. If you do it right, you should develop an action plan that takes 12-18 months to complete. There's no need to go to the trouble and expense of doing this yearly. In the intervening years, you can do a survey or have the Corporate Secretary or Chairman interview board members – "board evaluation light". This not only fulfills stock exchange compliance requirements, it tells you if you're making progress on the action plan from the major board evaluation.

For the major board evaluation, however, you need a third party to collect the feedback. No matter how much board members respect the Chairman or the corporate secretary, they will inevitably be less candid in expressing their views when it is an internal person conducting the interviews than they will be with an experienced outsider.

Board Evaluation Action Plans

The real ROI on any board evaluation comes from how you use the feedback you generate from the process. Most boards don't use it. They take a cursory look, see that there are "no big problems" and close the file with a sigh of relief. And if you've used a survey, you don't have much to work with anyway. However, if you've done a good job on the interviews, they should have yielded at least 3-5 really constructive ideas of potential changes to further enhance the board's overall effectiveness. In fact, if you haven't generated at least three, there's something seriously wrong with your process.

Getting there involves analyzing the comments (and there are often over 500 individual comments from a single board), theming and prioritizing them to determine the board's unique areas of strength and opportunities for improvement. After that, you're ready to move on to the next step. This involves a working session with the entire board (typically 2 hours) to talk about those strengths and those 3-5 areas where the board could be even more effective. This is actually the place where any third party you might use as a resource to your board really earns their money – or fails to. They should be able to tell you what other boards have done to address exactly these issues, bring in data and different approaches that provide the board members with some meat to really discuss these issues in a meaningful way in that 2 hour session and make some decisions as to whether they want to action any of those areas for improvement – and if so, in how best to go about it.

That is what directly leads to the Board Action Plan. Capturing the decisions the board makes about how to approach those 3-5 priority issues, allocating responsibility and potentially even a timeline to incorporate those changes are the key components of the plan. Once developed, the corporate secretary can use the Action Plan to keep the board on track. It's also a meaningful way to gauge the progress that's been made. Earlier today, the Chair of the Nominating/Governance Committee of a high growth company in New Jersey was telling me, "We had eight items on our Action Plan from the board evaluation last year and we've already done six of them. It's made a real difference for our board and we feel really good about it."

What Kind of Results Can Be Achieved?

This varies, of course, with the commitment of board leadership to board excellence. And you need to be honest: If you have a Chairman who largely views the board as a country club, a "tick the box" survey format yields the comforting self-satisfaction that there are "no issues here" and everyone can go back to sleep now. But if you have a dynamic, progressive Chairman who wants the board to genuinely be and stay at the top of its game in overseeing the company, using this format for the board evaluation can provide the very tool this Chairman's been looking for. You'll have a raving fan!

In my experience, it takes approximately two years to take any board "from good to great" and the greatest variable is board leadership. My favorite instance was a board in Israel who had a very progressive young Chairwoman and a highly skeptical Chief Strategy Officer. Everybody loved the board evaluation process and it culminated in a 3 hour board offsite in Tel Aviv where a robust Action Plan of about 8 key items was developed – and actioned over 18 months. Two years later, when I asked the Chief Strategy Officer what he thought about the board now he told me, "Are you kidding? It's night and day! This is the best board in Israel – bar none. All I ask from you now is 45 minutes on every second board agenda to blue-sky with the board on strategy – because they're better than McKinsey."