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Board Assessment

Laying the Foundation for Better Governance

Board Assessment

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For public companies in the U.S.—and for many private firms, as well—the question of whether or not to conduct an annual Board assessment has long since been decided. But there's still a major choice to be made: Will it be the kind of perfunctory, check-the-box exercise that almost never results in any significant change, or will it be a rigorous assessment designed to make a real difference?

Experience clearly shows that when it comes to Board assessment, doing just the bare minimum means squandering one of the best opportunities you will ever have to genuinely improve the way your Board works, both as a team and together with the CEO and senior management. Assessment is one of the most powerful interventions available for turning a good Board into a great Board—one that is constructively and effectively engaged, that genuinely adds value for the CEO and the management team, and that provides strong corporate oversight.

A de minimus approach to Board assessment—merely recycling a survey used by another Board, for instance—won't substantially improve your Board and might actually create some risks. A poorly designed and executed Board assessment process can destroy trust, erode credibility, and shatter essential working relationships.

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The Risks and Opportunities

Conducting an assessment is, in itself, an intervention with the Board, and it can have either a negative or positive impact. More specifically, poorly designed assessment processes raise two major risks:

- **Damage to Board dynamics:** Board assessments can surface exceptionally delicate issues. Without a well-planned process, these issues can easily be raised in ways that produce heated arguments and exacerbate rifts within the Board, or between the Board and management.
- **Erosion of credibility:** Conversely, if sensitive issues are raised and then swept under the rug, directors will view the process as a sham. That can seriously hurt the credibility of everyone responsible for the Board assessment process.

On the other hand, though it requires significant thought and effort, effective Board assessment offers real benefits:

- **An accurate check on the "pulse" of the Board:** We've had CEOs assure us they had excellent relationships with their Boards, only to see them taken completely by surprise when their Boards fired them. Corporate secretaries and chairs of governance committees will describe their Board as "ahead of the curve" one day. The next day, a member of that same Board will comment, "I'm on three Boards and this one is not up to snuff with the others, but no one seems to want to face up to that. I'm seriously thinking of getting off this Board." Regular and effective assessment can accurately tell the CEO and the Board leaders what the directors are pleased with and raise red flags before problems turn into crises. This type of process doesn't rely on assumptions and wishful thinking; instead, it provides concrete data on how the Board is working together.
- **A "safe" way to surface and discuss Board issues:** A sound assessment process gives the CEO and other Board leaders a chance to assess where the Board stands before deciding how to proceed with key issues. Understanding the "lay of the land" in the boardroom almost always makes it easier to navigate important and challenging topics. An effective process enables the Board to talk about issues without the CEO or any one of the Board members having to lead the discussion, which can increase the candor of those discussions while preserving political capital.

  One CEO told us, "For about a year, I'd wanted to raise the issue of recruiting more directors with industry experience onto the Board. I felt sure this issue would make several Board members defensive, so I held off. To my surprise, they raised this issue themselves in the course of the assessment and tasked the nominating committee to develop a list of Board candidates with exactly the kind of experience I felt we needed—all without my having to be the heavy on this."
- **Increased ownership and accountability:** A process that incorporates input from each Board member builds commitment and a shared sense of responsibility for addressing the priorities that emerge from the assessment, which is rarely achieved from a superficial process. A more thorough approach, which requires the active engagement of the Board and CEO as a group to discuss the results, leads them to agreement on how the Board is operating and what it can do to improve.

  An experienced Board member of a consumer services company shared this with us during his first Board assessment: "I've served on this Board for nearly 10 years, and this is the first time I've really sat down and thought about how we have been working together. We've never really talked about that—our discussions always focus on how we are addressing everything on the always overloaded agendas. Now that I've spent some time thinking about this, there are definitely some things we could do better. It also made me think about why I joined this Board in the first place—I seem to have lost sight of that somewhere between all the meetings and the calls."
- **More effective Boards and CEOs:** This is the ultimate pay-off. Our experience is that the data collected as part of a well-designed assessment can dramatically change how a Board uses its time, how

it works with the CEO, and how the Board and the CEO work together to focus on the organization's real priorities.

Board assessment should be viewed within the larger context of building a truly effective Board rather than as an isolated regulatory requirement. It is a critical lever for creating a Board that both meets legal obligations and becomes a source of added value for its company. Moreover, it's wrong to think that only poorly performing Boards should spend time on this. In our experience, the better the Board, the more useful a robust Board assessment process can be in helping them discover new ways to enhance their performance. The best Boards constantly look for opportunities to raise their game, and effective Board assessment is one of the best tools available to help good Boards get even better.

After looking more closely at how assessment fits into a Board-building framework, we'll examine other aspects of the assessment process: how to design it, several approaches to collecting data, the importance of feedback, and options that can help enhance its value.

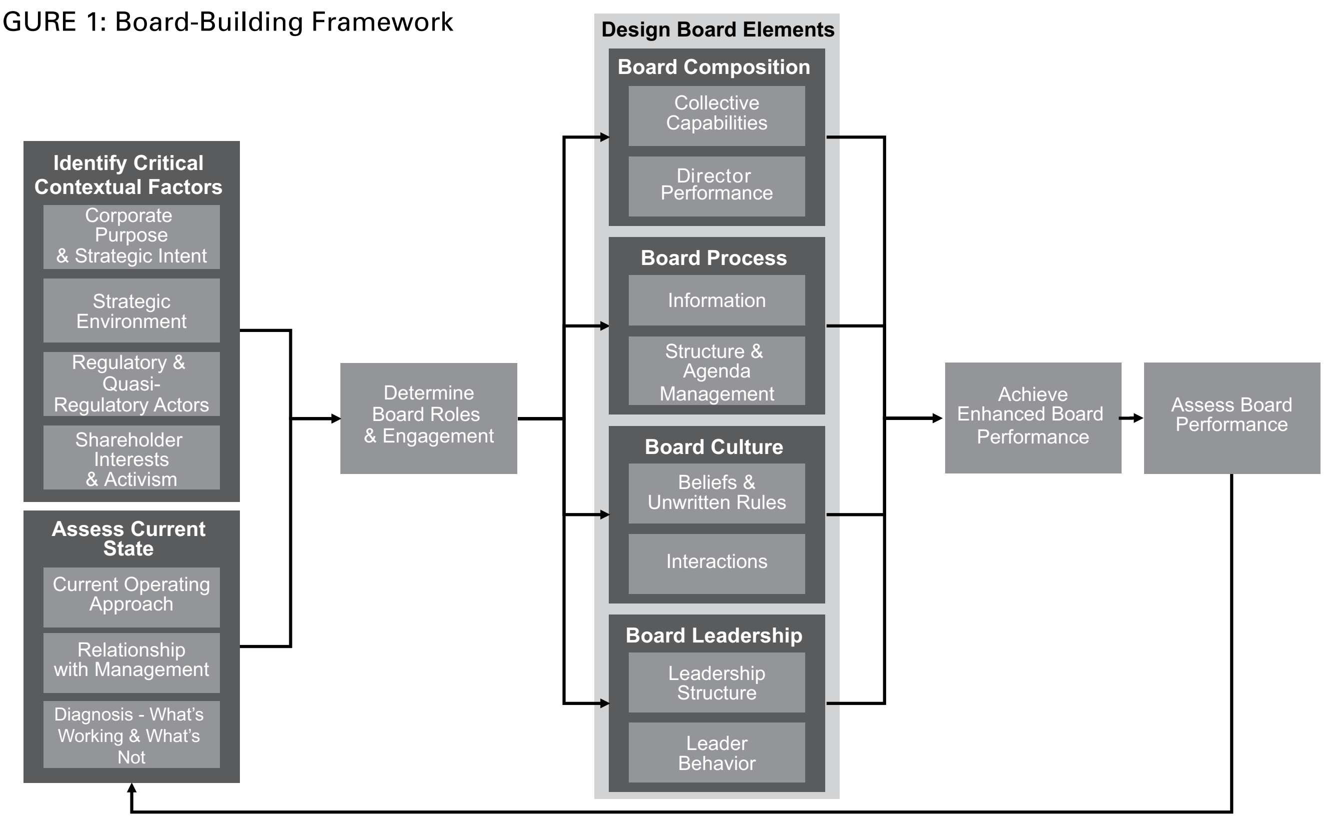
A Critical Component of Effective Board Building

Our framework for developing effective Boards (described in depth in our book, *Building Better Boards: A Blueprint for Effective Governance*) involves a detailed process that helps reshape not only the structure of the Board but also the fundamental nature of a company's corporate governance (see Figure 1).[1] Board assessment plays a vital role in two phases of this process:

- **Taking stock of the Board:** A comprehensive, diagnostic assessment—designed, executed, and interpreted well—can provide a natural starting point for Board building. The assessment process we envision is markedly different from what we see happening at many companies, and again brings up the issue of doing the minimum required to achieve compliance. If your goal is compliance, then it's fine to simply generate a checklist or quick survey. But if your goal is to improve the quality of governance, much more is required.

  It's essential that the Board leadership, typically including the non-executive chairman or

FIGURE 1: Board-Building Framework



lead director, along with the nominating and governance committee or its chair, work together on the key decisions that will shape the assessment. They need to determine what topics will be explored, what data will be collected, how data will be collected and by whom, how feedback will be shared with the Board, and how to act on the feedback.

These issues go to the heart of the CEO-Board relationship, and the process of designing the assessment presents an ideal opportunity to build engagement and understanding. Indeed, taking stock of where the Board is today is a vital step in determining where it's headed tomorrow. The results of this diagnostic process will be used to frame the priorities and actions throughout much of the Board-building process.

- **Assessing the quality of the engagement:** The assessment process also plays a role in the last step of the Board-building framework. It is, in essence, the feedback loop that provides the Board with useful information about the impact of initiatives undertaken in Board building—changes made to the Board's composition, processes, and culture. This information allows the Board to make necessary adjustments as it learns from experience.

  Typically, successful Boards find it useful to conduct both ongoing and more intensive periodic assessments. Ongoing assessment involves incorporating measures into the process that can help the Board make appropriate corrections as work progresses. This might involve regular short Board surveys to test directors' perceptions of effectiveness or progress in addressing priorities, or including a "How are we doing?" discussion in the executive sessions at the end of each Board meeting. At a minimum, Boards should evaluate their process at least once a year.

  However, at times it does make sense to go back and take a deeper look at all of the issues, beginning with the work of the Board and its degree of engagement on issues such as corporate strategy, CEO succession, etc. It can be burdensome – and frankly unnecessary – to do an in-depth analysis every year, but it's certainly worthwhile every two or three years. A more comprehensive assessment can be particularly helpful the first time the Board assesses itself, providing a useful roadmap for identifying and addressing its priorities. Progress along that path can be monitored over time by less comprehensive pulse checks.

  In our work with Boards, we sometimes hear concerns about the amount of time that a more comprehensive assessment process will require, particularly now that Board members are facing unprecedented demands. We understand that concern, but here's what we've found:

- Most directors are willing to invest whatever time is needed if they find the assessment process to be both engaging and useful. One company, for example, asked us to design an assessment that included interviews only with the Board's executive committee. Before long, word got around to the other Board members that the directors we had interviewed had enjoyed the discussions and felt that important issues were being addressed. The other Board members felt left out and demanded to be interviewed, too. Instead of feeling relieved that their time was spared, they wanted to participate in the process.

  In fact, we almost always find that directors, despite their busy schedules, are willing to continue their interviews past the allotted time so they can make their points and provide examples. In one instance, a Board member refused to interrupt his interview to take an urgent call from a well-known Fortune 100 CEO, asking his assistant to "tell him I'll call him back; it won't be that long. This interview is fun, and I'm on a roll here."

- In most cases where directors cite busy schedules as an excuse to avoid or cut short the assessment interviews, their real concern is that the process will unearth some particularly sensitive issues that could poison the Board's dynamics. That's a legitimate concern. However, a well-designed assessment provides a constructive way to confront "the moose on the table"—a metaphor for addressing the unpleasant but unspoken issues that often lie at the heart of a group's apprehensiveness.

The Board Assessment Process

A Board that assesses itself by checking off a few boxes and concluding, "We're okay," might satisfy the stock exchange listing requirements but will have little else to show for its effort. The real value of a Board assessment lies in engaging Board members in thinking about and discussing how the Board does its work, and finding ways to make the Board even more effective.

The general counsel of a large public company recently told us, "Our Board assessment was so good that we had no issues." Maybe so; some Boards are, indeed, in pretty good shape. But more often than not, a "perfect score" actually indicates either a poorly designed process or a Board that has simply disengaged. Effective designs for Board assessment typically surface 3–5 major issues, generate good discussion about them, and yield useful ideas for improving the Board's performance. Boards that are appropriately engaged tend to raise more issues, because they generally strive for continuous improvement.

There are five fundamental questions to address as you design your assessment process. Each one represents a crucial fork in the road; together, the answers will shape your process and determine its effectiveness. It's preferable to consider them all and develop a game plan before you get started, rather than trying to redesign the process on the fly.

- How will you get the Board to "buy in" before the process starts? It's one thing for a Board to accept that assessment is required; it's quite another for them to genuinely believe the effort is worthwhile. So it's essential to involve directors right from the start in designing their own process, beginning with goals and assessment criteria. There are some thorny decisions to be made: How will confidentiality be assured? Who will collect the data? Who will see the results? Will the committee assessments be done separately or as part of the overall Board assessment, and will non-committee members have input into them? Directors need to play a role in shaping the assessment in ways that will convince them of its legitimacy and value.
- What topics will be explored? A crucial aspect of the design is to reach a shared understanding of the issues to be assessed. These might range from Board structure and work processes to quantitative measures of corporate financial performance. In addition to broad issues, there may be particular topics a Board has focused on in the past year that would benefit from a pulse check. The challenge most often is to develop a list of topics that is neither too sparse nor too tedious, one that creates useful discussion and covers areas that Board members feel are critical in assessing their effectiveness as a governing body and as a working team.
- How will the data be collected? Will you be gathering quantitative or qualitative data or a combination of both? Surveys are useful in evaluating perceptions and are invaluable in tracking progress over time, but they have their limits. Individual interviews tend to unearth richer data and underlying concerns, forming the basis for excellent Board discussion and yielding highly productive results. Group assessments, on the other hand, can surface insights about performance in a format that can also serve as a beneficial team-building exercise. (All three of these approaches are described in detail later in this paper.) The selection of a methodology—whether alone or in combination—represents a major choice point in the design of the assessment process.
- Who should conduct the assessment? Using internal staff is less expensive; in addition, insiders, with their knowledge of the organization and its Board members, may raise the Board's level of comfort. On the other hand, an outside third party might bring more expertise in assessment methodologies and be perceived as more candid and objective. We once worked with a Board that had used internal resources to conduct a Board assessment for three years before our involvement. One component of the assessment, a survey that tracked year over year, was markedly different the year we were part of the process. When this was discussed with the Board at the feedback session, Board members confessed that they had been much more candid with the "outsiders." Consequently, some important

areas not previously identified were discussed and addressed.

Each choice carries its own drawbacks and advantages, but one word of caution: The market is flooded with vendors selling packaged assessments, checklists, and surveys. They might help you to comply with the NYSE rules, but they won't provide you with the real benefits of effective assessment and might actually increase your risk of experiencing the hazards we discussed earlier.

- How will feedback from the assessment be handled? This is probably the single most important component of the process; it will go a long way toward determining whether the process succeeds or fails. Deciding who will share the feedback with whom, in what settings, and under what conditions all are critical choice points. Even more important is the design of the working session with the Board where feedback results will be presented and discussed. Determine beforehand, rather than in the heat of the moment, how to constructively manage challenging or sensitive issues that might arise so that they are acknowledged and dealt with—not swept under the rug or allowed to fester.

  It's not enough for the assessment to raise touchy issues; to be successful, it also has to be seen by directors as a process that helps them resolve the issues. For example, one Board's self-assessment raised concerns about a "two-tiered Board"—one level consisting of the full Board, the other including only members of the executive committee, which met twice as often as the Board and therefore was seen as better informed and more actively engaged. The issue was aired during the feedback discussion, and it was agreed that in the future, all matters would be brought to the full Board whenever possible, either through meetings or conference calls, and the executive committee would be used only for emergencies.

Three Approaches to Evaluation

The best Board assessments involve some combination of both qualitative and quantitative data. Our work with Boards, for instance, usually involves three approaches: surveys, one-on-one interviews, and facilitated group self-assessments. All three of the approaches develop questions and discussion topics based on information gathered from the corporation's articles, by-laws, corporate governance guidelines, Board committee charters, and criteria for nominating directors.

QUANTITATIVE SELF-ASSESSMENT: SURVEY APPROACH

In this approach, Board members complete a written survey that asks them to rate the Board's performance on a variety of dimensions, using a numeric scale. The data from the completed surveys are evaluated and compiled in a report that generally includes analysis of both numeric scores and summaries of any write-in questions. The report forms the basis of the working session with the Board where feedback from the assessment is discussed, areas for development are identified and prioritized, alternatives are debated, and the best path for improvement is determined. A survey is a straightforward, standard practice that most Board members are familiar with.

A major advantage of using a quantitative assessment is the ability to perform comparisons and track the Board's progress over time. Surveys can also be designed to ensure anonymity and give Board members flexibility because they can be completed at their convenience. The value of questionnaire formats is often maximized when used in combination with one of the qualitative approaches.

QUALITATIVE SELF-ASSESSMENT: INTERVIEW APPROACH

Confidential interviews with each Board member are useful for gathering in-depth insights about the Board's performance. Typically, a list of interview questions is distributed to Board members in advance. While the structured questions provide some uniformity in terms of topics covered, an interview format enables directors to raise issues that go beyond the questions. Notes from the interviews are compiled and analyzed by key themes, which are typically summarized in a report. As with the survey format, the results are presented in a working session with facilitated discussion.

Interviews can be designed to protect the anonymity of participants, particularly if a third party is used to conduct them. This has the dual benefit of engendering candid discussion in a format that surfaces a rich pool of commentary. Because this approach typically generates far more detailed and complete information than is possible with quantitative assessment, it allows interviewers to delve deeply into complex issues. Consequently, the working sessions to discuss results tend to be interactive and engaging, and the detailed data is useful in setting priorities and considering alternatives.

QUALITATIVE SELF-ASSESSMENT: GROUP APPROACH

In the group self-assessment, a third party trained in the method leads a group discussion of the Board of Directors. The session involves direct, probing questions and full engagement of all directors in a group setting. Our experience shows that critical thinking is heightened if Board members are together when asked questions and have the opportunity to hear other opinions and even question each other. This kind of process typically creates consensus among the Board members and support for steps that need to be taken in response to issues that are raised. A report that summarizes the session can be used in subsequent working sessions with the full Board to discuss results and future actions.

The group discussion can be an effective and efficient means of stimulating rich dialogue. It works particularly well in situations where there is a high degree of trust and openness among Board members. These facilitated sessions require no preparation by directors and are consistently seen as engaging and energizing by participants. Moreover, the process itself typically serves as a team-building exercise for the Board, which can also be beneficial.

COMBINING APPROACHES FOR MAXIMUM IMPACT

The majority of boards still limit their assessments to a single approach, a written survey. Over time, however, more Boards are seeing the value of combining a number of approaches and tailoring them to their specific needs. Here are two examples:

- A high-growth NASDAQ company decided a Board assessment could be beneficial, even though it wasn't obligated to do it. It used a survey, followed by a group discussion. The survey indicated that there were concerns about information, Board leadership, and corporate strategy. However, it wasn't until the group session that the real issue was uncovered: The company had undergone a series of acquisitions that had transpired so quickly that the Board was worried they hadn't been able to sufficiently evaluate the deals. The CEO, on the other hand, said the Board impeded his momentum in deal-making. Their discussions led them to agree that the Board needed a deeper understanding of the company's strategy in order to make faster decisions about possible acquisitions. Without the group self-assessment, it's unlikely they would have reached a resolution as quickly as they did.

- Another company we worked with arose from the merger of two predecessor companies of approximately equal size. The Board, which was composed of members from each original firm plus directors new to the company, had worked together about 18 months when they embarked on their first assessment. They combined a survey and personal interviews to collect the data, which revealed that although the Board had made significant progress in integrating the cultures, there were still marked differences between the two "sides." The survey data indicated that the working relationship of the chairman and CEO was an area for improvement. However, it wasn't until the in-depth interview data was added to the mix that the reasons for these differences surfaced.

The current chairman's role at one of the predecessor organizations was very hands-on. It was entirely different at the other predecessor organization, where the CEO had come from. Consequently, the level of involvement that the chairman considered appropriate on the basis of his predecessor company seemed like micromanagement to the CEO. Understanding these contrasting frames of reference was helpful to both individuals in reshaping their roles and improving their working relationship. By itself, the survey data could not have brought these underlying issues to light in a way that provided this level of understanding.

Feedback—A Crucial Step

As we have indicated, the feedback portion of the overall assessment process is perhaps the most crucial. Decide at the outset how the feedback will be delivered and by whom. Even if a third party facilitates the Board's working session to discuss the feedback, the real leader or leaders of that session are in fact the chairman of the corporate governance committee and/or the Chairman of the Board. As such, they need to be aware of factors and dynamics that are likely to come into play during this discussion.

People walk into Board feedback sessions with various emotions and preconceptions that can be more intense than you'd normally find in similar situations involving other groups. After all, Boards tend to be made up of individuals at the height of their professions who aren't used to getting performance reviews—even if it is a review of a group they belong to. If not managed well, these feelings—particularly anxiety, defensiveness, and fear—can get in the way of effective communication and hinder Board members' ability to identify and solve problems.

On the other hand, not all feelings are negative. Some directors look forward to Board feedback sessions with enthusiasm; they see an opportunity for raising critical issues, solving problems, and initiating change. They view the assessment process as a means of breaking through the patina of gentility that cloaks most boardrooms to enable long-overdue discussion of important subjects.

This was the case with the Board of a global company in the services sector when its assessment raised issues surrounding succession. This was a primary concern because the CEO was approaching retirement, but it hadn't been directly addressed until the feedback session. Although they unanimously endorsed the choice of an internal candidate to become the new CEO, the Board's discussions led to a series of initiatives to address other succession issues such as mentoring of the candidate and the future of other members of the executive team.

When delivering Board assessment feedback, be sensitive to the potential negative dynamics, build on the positive dynamics, and establish an environment that helps direct energy into appropriate actions that will enhance the Board's effectiveness. You need to create a boardroom environment in which there is:

- **Motivation to work the assessment results:** Board members need to feel that the issues brought out by the Board assessment are worth addressing. If the process is perceived as nothing more than "going through the motions" with no real desire to find out what the issues are, there will be scant motivation to dig into the feedback and do something with it.
- **Assistance in using the assessment results:** People need to fully understand the key issues and themes surfaced in the process. For example, if an assessment indicates dissatisfaction regarding corporate strategy, it is important to understand the nuances. Do Board members feel the corporate strategy isn't right for the company? Are they concerned about implementation? Or is the crux of the matter that they want to be more involved in reviewing and developing the strategy? Without knowing what the real issue is, it's impossible to resolve the problem.
- **Appropriate power:** Boards should limit their actions to governance issues—even if management issues arise. And once priorities are set, they need the resources to address them. That may include access to outside advisors; the ability to put these items on Board and/or committee agendas; and access to the CEO or other members of senior management, as appropriate, to discuss the issues and develop approaches.

Variations on the Board Assessment Process

Some Boards have customized their assessment processes, adding an assortment of "bells and whistles" such as data on senior management's perspectives on the Board's effectiveness, assessments of the chairman (or lead director), and a review of Board minutes.

MANAGEMENT EVALUATION OF THE BOARD'S EFFECTIVENESS

Although a Board assessment typically involves input by the Board members themselves, some Boards want to know how management thinks they're doing. Does the Board actually add value for them as senior managers? What do they see as the most valuable contributions by the Board? What, if anything, would they want to change in terms of how the Board and management interact?

One client—a high-profile media company— included in its assessment a set of questions to be completed by seven senior managers who regularly worked with the Board and attended its meetings. A comparison of results showed that the average scores the Board gave itself on certain components differed dramatically from the scores given by senior management. Some differences came as a surprise; in several areas, management clearly felt the Board was adding more value than the Board thought it was. The nominating and corporate governance committee and a subset of the management group that had participated in the assessment process met to discuss the underlying issues and themes that were raised. At the session, both the Board and management decided to make some changes, which, within a year, had a positive impact on the Board and its working relationship with the management team.

ASSESSMENT OF THE CHAIRMAN OF THE BOARD AND/OR LEAD DIRECTOR

In the United States, the majority of public companies—55 percent of S&P companies[2]—combine the roles of Chairman of the Board and Chief Executive Officer. These two roles, however, are very different. An individual can be an outstanding CEO but a poor chairman and vice versa. Recognizing this, some Boards feel it is useful to evaluate the CEO separately in his or her role as Chairman of the Board, either as part of the annual CEO evaluation or as a component of the annual Board assessment.

The three approaches to gathering Board assessment data just discussed can be effectively used in designing an assessment of the chairman. First, a number of questions must be answered: Who will lead the process, review the data, and provide feedback to the chairman—the chairman of the compensation committee, the chairman of the governance committee, or someone else? Is there value in using a third party to collect data? Will employee directors serving on the Board be asked to provide input into the chairman's evaluation, or will this be limited exclusively to outside directors? How will results of the chairman's assessment be shared with Board members?

If the Board has a non-executive chairman or a lead director, it might be useful to assess their effectiveness. In these circumstances, the question of who will assume leadership for the process and deliver the feedback is sometimes even more difficult. This responsibility typically falls to the chair of one of the key Board committees that the non-executive chairman or lead director does not lead.

REVIEW OF BOARD MINUTES

Some Boards find a review of minutes helpful. It explores how the Board actually spends its time and compares this with how the Board feels it should spend its time. For example, if Board members feel strongly that CEO succession and executive development are a Board priority, a review of Board minutes over the past year can indicate how often the Board discussed this issue. A similar review can be a useful component in committee assessments.

Director Peer Review

Although not a regulatory requirement, some Boards have begun to incorporate director peer reviews into their assessment process because of their potential value.

RECOGNIZING THE BENEFITS

In a typical peer review process, Board members provide structured feedback on each of their fellow directors. Some benefits include:

- **Professional development:** Feedback becomes increasingly rare at higher organizational levels. Consequently, directors receive very little—if any—feedback on their performance other than isolated comments such as, "That comment you made today was right on" or, "I really think we've got to be careful about beating a dead horse." A structured director peer review process provides a comprehensive perspective on a director's overall contribution—identifying both areas of strength and opportunities for development. The feedback from a peer review is typically helpful to a director's professional development on all Boards he or she serves on.
- **Enhanced Board performance:** Board members typically use peer feedback to leverage their strengths and address developmental opportunities, which ultimately results in better performance of the Board as a whole. Noticeable improvement often follows a peer assessment simply because the director has been made aware of a need for change—often for the first time. Even when Board members disagree with feedback, most find it useful.
- **Team-building:** Destructive Board dynamics are a risk—especially if the peer review process is poorly designed and/or badly managed. If done well, however, peer review can foster Board team-building by providing a forum for Board members to reflect on both individual contributions and how they work together.

KEEPING IT CONSTRUCTIVE

Because peer assessment takes evaluation from a group to an individual level, anxiety tends to increase. Most Board members are highly accomplished, many haven't had a performance review in years, and many might be happy never to have one again.

If you want to ensure a peer review is beneficial, not alienating, we have one piece of advice: Keep it constructive. For example, a Board member we interviewed in the course of a peer review had been seething over the boardroom behavior of three fellow directors for years and welcomed a forum to give them a piece of his mind. Once he had finished letting off some steam, however, we began to ask him more probing questions about the behavior he had described. In every case, there was a rich kernel of constructive feedback hidden beneath the venting that preceded it. The feedback to the three individuals focused on the constructive suggestions instead of personality issues. Consequently, it was relatively well received by the three Board members, even though it was by no means positive.

DESIGNING A PROCESS

Because of its sensitive nature, the design and implementation of the peer review warrant even more care than other aspects of a Board assessment. There are three areas, in particular, that require careful consideration:

1. **Identifying objectives**: Sometimes a peer review is solely for the professional development of individual directors, which allows Board members to become comfortable with the process before attaching consequences to the results. Board members tend to treat their peers' feedback seriously, even when it is purely developmental. In extreme cases, low scores have prompted resignations; more generally, a noticeable improvement in performance can be expected. Since the proposal of new governance legislation, peer reviews are increasingly being used by the nominating and corporate governance committees to help them make re-nominating decisions.
2. **Collecting data:** We typically recommend a combination of quantitative and qualitative approaches. It is particularly helpful to conduct confidential interviews when the process is first introduced, which allows directors to be more candid and more expressive than they can be with a survey. Use of a third party to collect and analyze the data helps ensure candor and confidentiality—both essential to a successful process.
3. **Providing feedback:** Results are often used to shape developmental opportunities for the

Board as a whole or for individual directors, and improvement can be measured yearly.

If the review is developmental, feedback is usually summarized in writing and given (typically by a third party) directly to each participant. If quantitative data is collected, a comparison of each director's individual score with the average score of the entire Board is provided. Individual meetings or phone calls are suggested if sensitive or challenging issues emerge in an assessment.

If the assessment is part of the review for re-nomination, decide at the outset who will see the results: the chair of the nominating and corporate governance committee or the whole committee; the Chairman of the Board or the full Board. Typically, the nominating and corporate governance committee or its chair receives a summary of the results shortly after the full results are provided to each director. If results suggest performance and re-nomination concerns, the committee discusses how to handle this, and the chair schedules individual meetings with the appropriate Board members.

Summary

A comprehensive and effective Board assessment is one of several critical components of an overall process to move beyond legal compliance to a more purposeful effort to improve a company's governance. Since assessment provides a natural starting point for Board building—essentially laying the foundation for better governance—the benefits of moving beyond the minimum regulatory requirements are well worth the effort.

To maximize its effectiveness, the assessment process must be thoughtfully and thoroughly designed and implemented, with careful attention paid to goals, topics to be explored, data collection, and feedback. This can mean a significant investment of time and effort—not only to create and execute the process itself but also to appropriately address the issues that surface during the evaluations and feedback sessions. Even so, it's an opportunity that should be embraced, not squandered, especially when you consider its true potential as a significant leverage point to turn a good Board into one that is truly outstanding.

References

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About Nadler Advisory Services

Nadler Advisory Services offers highly specialized consultation to CEOs, boards of directors, and senior teams to help enhance the quality of executive leadership, corporate governance, and organizational performance. Nadler Advisory Services is firmly focused on high-level, close-in advice and consultation to CEOs, boards and senior teams in the following areas:

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  - Personal leadership effectiveness
  - Building an effective leadership team
  - Organizing the leadership of the enterprise
  - Collaborative strategy development
  - Effective communications
- Board Advisory Services
  - Assessment of overall board performance
  - Analysis of board composition
  - Evaluation of individual director performance
- CEO Succession Planning Services
  - Navigating all phases of the succession process: initiating the conversation, identifying and developing candidates, selection, transition planning, and supporting the new CEO

To obtain further information about Nadler Advisory Services, please contact us at info@nadleradvisory.com or at 1-917-633-4480.

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