

Board and Director Assessment

WWU MBA Corporate Governance Seminar

Board and Director Assessment

- Board members tend to be accomplished people whose intellect and insights are valued.
- Used to evaluating others, not being evaluated.
- Big egos can be resistant to evaluation.

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Nonprofit Boards

- Members see their role as performing a charitable act, not to hold management accountable.
- Often lack clear goals or accountability and can be largely ineffective.

Question #1

- What should a board be according NACD Blue Ribbon Commission Report on Board Evaluation (2005)?

Question #2

- What is the framework for a strategic asset board?

Question #3

- What is within the scope of a boards duties?
 - What is outside the scope of a boards duties?

Least Involved				Most Involved
The Passive Board <ul style="list-style-type: none"> Functions at the discretion of the CEO Limits its activities and participation Limits its accountability Ratifies management's preferences 	The Certifying Board <ul style="list-style-type: none"> Certifies to shareholders that the CEO is doing what the board expects and that management will take corrective action when needed Emphasizes the need for independent directors and meets without the CEO Stays informed about current performance and designates external board members to evaluate the CEO Establishes an orderly succession process Is willing to change management to be credible to shareholders 	The Engaged Board <ul style="list-style-type: none"> Provides insight, advice and support to CEO and management team Recognizes its ultimate responsibility to oversee CEO and company performance, guides and judges the CEO Conducts useful, two-way discussions about key decisions facing the company Seeks out sufficient industry and financial expertise to add value to decisions Takes time to define the roles and behaviors required by the board and the boundaries of CEO and board responsibilities 	The Intervening Board <ul style="list-style-type: none"> Becomes intensely involved in decision making around key issues Convenes frequent, intense meetings, often on short notice 	The Operating Board <ul style="list-style-type: none"> Makes key decisions that management then implements Fills gaps in management experience
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Question #4

- Why should boards complete assessments?
 - Benefits/risks?

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Benefits and Risks of assessment

- Benefits
 - Legal obligations
 - Improve performance
 - Builds stronger ties between the board and management
- Risks
 - Can ruin trust
 - Potential waste of time

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Question #5

- How do boards get an outside perspective and prevent being blinded to their own problems?

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Questions #6

- How often should assessments be conducted?
- When should they be conducted?

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Board and Director Assessment

- Regularize (but don't routinize) process. (Not too often; not too seldom.)
- Try to settle upon efficient, regular format for conducting process. (Don't let the process become a distraction from the substance.)
- Consider need for outside facilitator. (When might this be appropriate?)
- Try not to personalize issues; focus on solutions, not blame. Allow face-saving.

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Question #7

- Should assessment focus on the whole board or just individual directors? Why? Which is more important?

Board Assessment

- Board factors to be assessed (summary):
 - Whether key responsibilities in corporate charter are being carried out
 - Adequacy and timeliness of information
 - Appropriateness of meeting agendas and time allotments
 - How constructively directors work together and with management, communicate, and deliberate
 - Adequacy of board structure in terms of regulatory requirements, "best practices", and effectiveness
 - Can the board see where it has made a positive difference?

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Board Evaluation

- Sample evaluation (see appendixes C1 and C2)

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Board Assessment

- Puget Sound Energy Example- -
 - Regularized annual board (and board committee) self-evaluation process initiated in 2003
 - Patterned after NACD guidelines
 - Managed by Governance Committee
 - Evaluation instrument distributed to directors who return anonymously
 - Results are compiled by third-party
 - Results reviewed and discussed by board in closed session with any needed changes agreed upon

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Board Assessment

- UW Example- -
 - Every 3-4 years
 - Board of Regents Chair manages process
 - Outside consultant interviews each Regent, the University President, and selected other key leaders (Provost, Executive VP)
 - Consultant identifies issues for discussion and reviews them with Board Chair and Pres.
 - Consultant facilitates discussion by full Board in **open session**, where and changes are agreed upon
 - Does public, open session chill discussion?

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Individual Director Evaluation

- Performance characteristics to be evaluated (summary)- -
 - Meeting attendance rates
 - Preparedness
 - Degree of meeting participation
 - Respect for other viewpoints and the will of the majority
 - Understanding of entity and its business
 - Ability to work constructively with directors and management
 - What he/she does well
 - Commitment to the enterprise
 - Director's reputation and integrity
 - What he/she could do to improve

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Individual Director Evaluation

- Sample evaluation (see appendixes D1 and D2)

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Individual Director Evaluation

- Puget Sound Energy Example- -
 - Early adopter (2003)
 - Annual process in conjunction with determination whether to nominate individual director(s) for re-election at next shareholders meeting
 - Process managed by Governance Committee
 - Director with expiring term is asked to perform self-evaluation according to prescribed format
 - All directors encouraged to provide confidential comments on the director to Governance Committee Chair using same format (written or verbal)

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Individual Director Evaluation

- Puget Sound Energy Example (cont.)- -
 - Governance Chair compiles director comments and reviews with Board Chair
 - Board Chair and Governance Chair meets with director in question to (1) hear and discuss verbal self-evaluation and (2) review comments from other directors and (3) discuss anything needed
 - The two Chairs review matter with Governance Committee, which makes recommendation on renomination to full Board

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Individual Director Evaluation

- PSE process relies upon honest self-evaluation to take the sting out of criticism (most directors are hard on themselves)
- Allows opportunity for discussion of problems, which would be difficult without regular and expected evaluation events
- Handles matters with respect and delicacy

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Individual Director Assessment

- Personal soul-searching outside of formal process -
 - Am I adding value to board/organizational issues as a whole?
 - Am I keeping up with the company/industry strategic issues and challenges?
 - Am I constructively and regularly challenging the assumptions of management and my board colleagues? (*"Constructive Skepticism"*)
 - Do I pose catalytic questions and thoughts?
 - Am I a good listener?
 - Am I open to critical feedback?

Phyllis Campbell

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Approaches to Assessment

Survey Approach	Interview Approach	Group Approach
<p>Pros</p> <ul style="list-style-type: none"> • Easy to track changes since everything is quantified • Protects anonymity • More convenient 	<p>Pros</p> <ul style="list-style-type: none"> • In-depth insight • Digs deeper than survey 	<p>Pros</p> <ul style="list-style-type: none"> • Team-building • All parties get to voice their opinion simultaneously
<p>Cons</p> <ul style="list-style-type: none"> • Limited feedback • Directors may get caught up in the form of the assessment 	<p>Cons</p> <ul style="list-style-type: none"> • Anonymity may be compromised • Directors may hold back true opinions 	<p>Cons</p> <ul style="list-style-type: none"> • Propensity to lose focus • Can be hurtful

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Form vs. Substance

- How do you get honest and helpful answers?

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Question #8

- How do you ensure that proper change stems from the evaluation process?

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Key Takeaways

- Without the right composition, it is very difficult for Boards to perform effectively
- Board Assessments are crucial for measuring and assuring both director and Board performance
- There are many different forms of evaluation: their effectiveness varies from Board to Board

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