

Better board evaluation options

By Iain McCormick

Evaluating the performance of any board, its committees and its individual directors is a responsibility board chairs simply shouldn't shirk.

It involves directors undertaking a constructive but critical review of their collective and individual performance; identifying strengths and weaknesses and implementing plans for professional development.

The aim is to help boards think more strategically, make better decisions and move toward best practice governance. A raft of board evaluation systems that include simple paper-based templates, web-based tools and interview-based evaluations, now exists.

The pressure to embrace board evaluations sprang largely from the corporate governance disasters that led to the implementation of the Sarbanes-Oxley Act (2002) in the United States. Companies listed on the New York Stock Exchange had to both conduct board evaluations and disclose the results. Board committees, including the audit, nominating and remuneration committees, also had to conduct regular performance evaluations.

The most common types of evaluation are:

- Whole of board – examines the board's skills, behaviour, processes, team outputs.
- Committee – reviews the committee's purpose, skill sets, processes and achievements.
- Chair – assesses the individual's board management performance, working relationship with board members and personal qualities.
- Director – examines the individual directors' understanding of their role, competencies and boardroom performance.
- Chief executive – reviews the CEO's performance against plan, their competencies and capabilities.

Directors who have undertaken evaluations for many years still question its utility. Their criticisms of the process include:

Evaluations are too long. Some whole-of-

board assessments consist of 70 or 80 questions. They take a long time to complete and provide more information than is possible to follow up on. Directors get bored, pay little attention to the detail and often provide routine scores, typically 4 on a 5-point scale.

Individual director evaluations can be worse with each director having to answer 40 or more questions. The personal nature of the feedback makes evaluation more sensitive than whole-of-board evaluation. The potential for unproductive feedback is significant.

Evaluations don't focus on critical issues. Board evaluations are typically based on a best practice model such as the London Stock Exchange's 'Corporate Governance: A Practical Guide'. Chairs often have issues other than those in the model that they want to assess as part of the evaluation. Good evaluations must be able to focus on new and sometimes unique issues.

The question set is fixed. Chairs often want to alter questions or add new questions in an evaluation.

The lack of evaluation follow up. Evaluations need a dynamic follow-up process, including an action plan and follow-up report. Directors should be able to comment on the action plan and the adequacy of the follow up. Online board forums can be productive.

A lack of good governance evidence. Most evaluations ask board members to agree or disagree with specific statements. Very few evaluations ask boards to cite evidence or examples of their good governance. Evaluations become meaningless rating exercises without clear evidence of achievement.

New evaluation systems that deal with these types of issues are, however, emerging. They are dynamic, engaging and tailored to individual companies. They provide a cost-effective solution to governance evaluation which can't be achieved by the consultant and interview-based processes. They are particularly well suited to not-for-profit

organisations and cost-conscious medium to larger enterprises.

The new generation features long-form evaluations and simple, easy to complete, short forms. These quickly identify whether the board and individual directors are adding value to the organisation and the board.

More app than website-like, the evaluation forms are clean and simple without fancy fading pictures or lots of text boxes or links. The aim is to get the board member into the evaluation with as few keystrokes as possible. The focus is on clear navigation with immediate recognition of what questions have been completed and what haven't, and the forms can be used on a range of tablets and smart phones.

Follow-up questions can be generated based on the previous years' evaluations – no more tedious and pointless process of repeating questions year after year.

The systems allow for additional new questions. The chair can thereby focus on key areas missed in traditional fixed-question systems.

With prices for these applications falling, boards can desert expensive consultant and interview-based systems for simple and effective tailored alternatives.

Finally, interactive planning and follow-up systems enable boards to agree on actions to improve governance, write follow-up reports and comment on both short- and long-term progress. Progress review dates can be built into annual board work plans.

There's a lot wrong with many current director evaluation systems. The new generation could do a lot to lift governance performance through better and more accessible board evaluations. ●



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