Board Evaluation

Discussions in organisational management fields often focus on the ways in which employees are appraised with the benefits of such an appraisal clear to many. However, what often garners less attention is the need for appraisal and evaluation to occur at the very top level of an organisation – the Board. Boards set the tone for an organisation, and are charged with delivering goals to share owners based on previously communicated expectations.

However, retail share owners hear from directors once a year at best (at an Annual General Meeting), whilst institutional share owners may meet with senior personnel only slightly more often. Hence, an effective evaluation of the performance of a Board as a whole is important, as highlighted by the incision of an assessment and evaluation Principle in the Code of Corporate Governance. Despite this, many companies do not have in place systems or processes that allow for the effective evaluation of Board performance.

What is Board evaluation?

Board evaluation often involves peer-led appraisal of a Board's performance. This is important because it allows for a periodic, formal review of a Board's work. Importantly, this process should include evaluation of both people and processes; for sure, amendments to personnel may be hindered by processes that can hamstring an organisation.

Whilst Boards should have verbal debriefs following each Board meeting (usually led by the Chairman), the annual Board evaluation should allow the Board to be a more efficient unit of the organisation. Indeed, if good corporate governance involves a strong and effective Board that understands its own role, and its own accountabilities, then an annual evaluation of this is part of good corporate governance. This evaluation can lead to insights into the functioning of the Board, whilst potentially identifying areas that may need strengthening and developing. A Board evaluation may pinpoint succession issues as a concern, whilst evaluations can give insights into the human aspect. Much is made of independence and impartiality in the Boardroom; however, a Board needs to work in an environment characterised by informed and productive debate and questioning – a board split by dominant personalities benefits neither the company nor share owners.

Indeed, one area of real tangible benefit can be in the recruitment of new directors. The Board evaluation should ask questions such as "Is the skill balance on the board adequate?", and "Is there sufficient diversity of age/culture on the Board?" Responses to these questions can guide future recruitment at Board level, and can allow the Board to better equip itself to face the challenges it is tasked with meeting.

Moreover, the Board evaluation also allows for some reflection on the role of the Board, what its objectives are, and how it aims to fulfil those objectives. It allows for in-depth consideration on what resources the Board might need in order to achieve goals, whilst giving a forum through which directors can consider the ways in which the Board contributes to the goals of the organisation.

Such Board evaluations are common around the world. In the United States, the NYSE Corporate Governance rules state that firms should conduct annual evaluations to determine the effectiveness of the Board and its committees, whilst the most recent Combined Code in the UK states that boards should "…undertake a formal and rigorous annual evaluation" of the themselves, including its members and committees. Moreover, here in Singapore, the Code of Corporate Governance states that there should be a "…formal assessment of the effectiveness of the Board", as well as the contributions of its members.

How does Board evaluation work?

Board evaluation can simply be in the form of a questionnaire, to be distributed to fellow directors. The questionnaire should be anonymous, and allows for thoughtful and reflective answers from directors. Only with anonymity comes honesty, and it is honesty that is important in this process.

The process should be overseen by a nominated body/person within the organisation (often the nominating committee), in conjunction with an independent third party. The results of these questionnaires are collated (preferably by an independent third-party), with the result being a document that draws together key themes, and suggests potential talking points for the Board at their next meeting.

The independent third-party then presents results to the Board. It is important that *a*) all Board members are present at this session, and *b*) that it is agreed that no other company business or other Board matters be discussed on that day. The results of the evaluation are of significant importance, and should not be just another item on a long agenda that may be in danger of being dropped off as item after item over-run.

Benefits of Board evaluation

By conducting a board evaluation, the Board benefits through knowing where it can improve. Often, whilst some may have an idea that something needs to be improved at Board level, if no-one speaks out to rock the boat, the *status quo* is maintained - with sometimes disastrous results. The Board evaluation allows for anonymity, and hence provides a non-threatening medium through which directors can air their views.

The undertaking of a Board evaluation improves accountability, through the recognition that the Board is not the ultimate body of accountability, and that the Board are in turn accountable to some other group of persons, usually share owners. Indeed, the Board's accountability should be inherent in the questions for consideration as part of the evaluation. By conducting an evaluation, the Board is demonstrating to share owners that they are serious about fulfilling their fiduciary obligations.

The results of Board evaluations can feed into topics for discussion at annual retreats. It may be that the evaluation process identifies a lack of willingness to speak at Board meetings, or a lack of skills in a certain area. It may suggest that Board meetings can take too long, or one person tends to dominate meetings. These subjects can be discussed at Board retreats, and can lead to a better performing Board. In essence, Board evaluations should not be stand-alone events. They should be based on expectations set at the beginning of the year review, and should feed into plan for improvement over the coming months. The evaluation process itself should evolve as is necessary to fit the needs of the organisation.

Finally, companies should communicate to share owners that they conduct regular self-evaluations. Whilst results remain confidential, communicating that such a system is in place reassures share owners that the Board appreciates its role as servant/leader.

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