WHY DO A BOARD ASSESSMENT: BY MARY DENISE KUPRIONIS OF THE GOVERNANCE SOLUTIONS GROUP

2014, 2014 SUPPLEMENT, BEST & WORST PRACTICES, BOARD SERVICES & TOOLS, CORPORATE GOVERNANCE, ISSUES

How To Get Started, The Process And The Rewards.

In the last ten years, directors have devoted more time to understanding what effective board governance means and how they should modify “best practices” to meet the needs of their unique board. Historically, the heightened interest is in part attributed to the adoption of SOX in 2002, which followed the Enron and WorldCom scandals and was intended to bring in a new era of corporate governance. Then, in 2010, following the financial crisis, Dodd-Frank was introduced to bring in yet another wave of corporate governance reform. More recently, activist investors are encouraging shareholder proposals that, for example: establish a rule that at least two thirds of the directors should have served for less than 15 years; call for majority voting at shareholder meetings; require disclosure concerning the existence of succession plans; require CEO pay to be tied more closely to measurable performance; or require disclosure of the board’s self-evaluation process. In response to these reforms and questions, directors have moved beyond “check-the-box” board assessments, but still struggle with how to develop the right process for their board.

In the hubris of “good governance” talk, the annual board evaluation is the “prompter” for directors to take time to review how the board operates. It is a tool used to “take the board’s temperature,” to benchmark governance best practices, review current protocols and measure board effectiveness. Boards annually review the CEO’s performance; shouldn’t it do the same for itself – and in a meaningful way?

Typical "Assessment Comfortability" Progression Scale

Directors are often reluctant to assess board performance. The reason? Initially, some directors say the assessment process is a "grading" system, and that doesn't feel right. Other excuses include; "spending time on the board evaluation diverts time away from serious issues," "it costs money," "there's little ROI," "a director might be offended," "management might be offended, "it might impinge on our cohesive board culture," or "we'd never make the mistake that other board did." Getting comfortable with conducting a helpful board evaluation is often a six-step progression. Where does your board fall on the scale?

Basic Board Assessment Steps

It can be instructive if, after every board meeting, the chair asks four questions:

1. Did we accomplish what needed to get done?
2. What could we have done better?
3. Did we have the right materials in advance?
4. What key items should be on the next meeting agenda?

However, this "after each meeting checkup" should not take the place of the annual evaluation. While every company's annual board evaluation process will be different, and an individual company's evaluation process may change from year-to-year, there are nine common steps to ensure the board assessment results in a helpful outcome.

1. Discuss purpose and process with the full board. It's important that directors agree on purpose and have input on the design process.
2. Use a mixture of tools. A way that some boards have found helpful is one year to conduct a full blown survey using questionnaires and in-person interviews with a third party facilitator. The second year, the process may only use a survey tool, with a discussion led by the board chair. It's also important to use a combination of quantitative and qualitative questions.
3. Make the assessment a board agenda item. First to discuss process, then to discuss the analysis. Benchmark your board's governance practices with

best practices. Not every best practice is right for every company, but it is important to understand the principles behind the practices.

4. Allow enough time for the "results" discussion. Too often it's the last agenda item of a two day meeting.

5. If possible, schedule the discussion during the annual board retreat when agendas generally are more flexible.

6. Note follow-up and to-do items. This could take the form of "board goals."

7. Check the board's progress in six months (or quarterly if appropriate)

8. As a starting point for the following year's assessment process, review the previous year's form of assessment, analysis and progress on the year's goals.

9. Consider in-depth board assessments one year, in-depth committee assessments the following year. Every other year, consider engaging an independent facilitator to assist with the evaluation process. When the board gets comfortable with the process, consider when and how to introduce peer-to-peer evaluations, along with the full board evaluation.

The Board Evaluation - An Effective "Pause" Button

Boards, like management, can caught up in business details and forget to occasionally step back and ask two simple questions of themselves, "how are we doing" and "what can we do better?" The board evaluation process provides a "pause" button that enables boards to take stock, check reference points and adjust its governance framework as necessary.

Good governance practices encourage a board to know whether its processes have been carefully developed, or have simply evolved because "that's the way we've always done it," or because "that's the way one director wants it done." The board has many responsibilities; including hiring the CEO, succession planning, and risk, financial and operations oversight. It should not be forgotten that it also has a responsibility for ensuring the effectiveness of its own operations.

Rewards of engaging in a board assessment

Because every board is unique and every board assessment is different, the rewards of engaging in an effectiv board assessment vary. Outcomes realized by boards include:

1. Provided a timely platform for directors to sharpen their board skills matrix. As board members consider the company's strategic plan and critical issues, new skill sets were needed on the board.
2. Identified and prioritized matters during the past year that could have been handled better.
3. Prioritized matters that needed board attention.
4. Refined the risk and compliance reporting mechanisms used at meetings.
5. Enhanced board dynamics.
6. Changed committee composition.
7. Initiated a board talent planning process.
8. Highlighted improved ways to communicate and follow-up after meetings.
9. Independence was more clearly defined.
10. Improved quality, and quantity, of management presentations.

MARY DENISE KUPRIONIS is president of The Governance Solutions Group. Denise advises boards on governance best practices and facilitates the annual board and committee assessment process. GSG services also include guiding the board governance "tune-up," assisting the board with developing its board and CEO succession plans, mentoring new directors (and CEOs new to board operations), and developing orientation and continuing education plans. Prior to founding GSG in 2010, Denise spent twenty years serving in the role of chief governance officer at a family controlled NYSE-traded media company.

RECENT

THE BIGGEST AND BEST THING WE SAW THIS SEASON: A 41% INCREASE IN RETAIL INVESTOR VOTING PARTICIPATION…FOLLOWING AN 8% INCREASE LAST YEAR… AT BANK of AMERICA

People: 2018Q2

On the Supplier Scene: 2018Q2

AUDITOR RATIFICATION…THE NEXT BIG THING IN CORPORATE GOVERNANCE? WE HAVE A BETTER IDEA

ONCE OVER IN APRIL, SHAREHOLDER MEETINGS ARE YEAR-ROUND EVENTS THESE DAYS

TOPICS

Abandoned Property

Activist Investors

Annual Meetings

Benchmarking

Best & Worst Practices

Board Services & Tools

Compliance & Ethics

Corporate Governance

Data Management

Director Education & Evaluation

Dividend Reinvestment Plans

Document Design & Delivery

Employee Stock Ownership

Entity & Subsidiary Management

Executive Compensation & Search

Financial Printing

History

Inspectors of Election

Interviews

Investor Relations

Legal Services

Mailing Specialists

Money Saving Ideas

Notice & Access

Proxy

Records Management

Recruiting

Registered Agents

Retirement & Stock Plan Administrators

Shareholder Services

Technology

The Basics

Transfer Agents

Virtual Meetings

Get Updates

Enter your email to receive news and subscription offers for the *Optimizer*.

Name

Email

SIGN UP

Privacy Policy