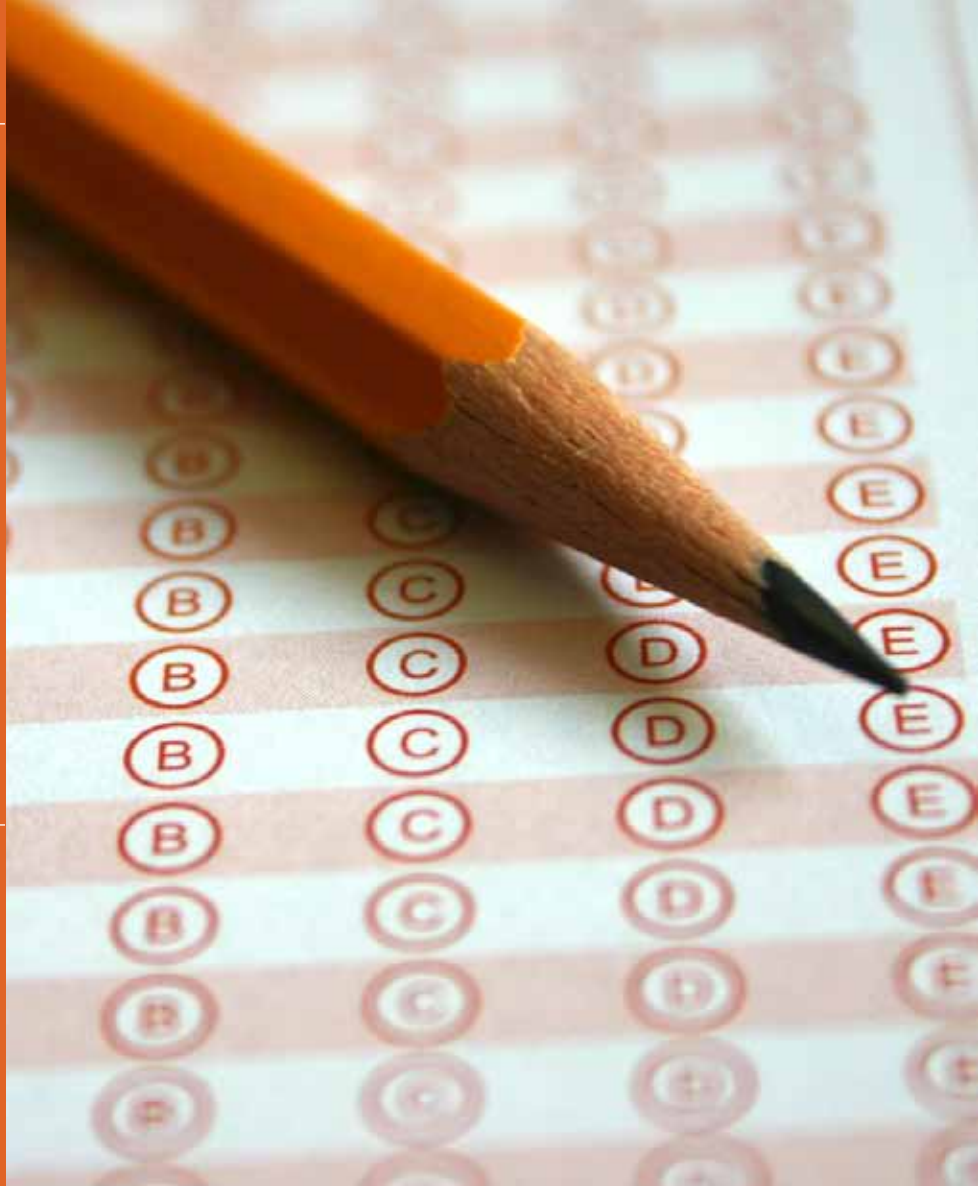


Using Evaluation To Build Strong Boards

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Every effective team working together should conduct a periodic review to take stock on how it is progressing: does it still have the right skillsets to tackle the challenges ahead; does it have the right information to work with; is it deploying the right process in addressing the right issues, making decisions, following through, and inculcating the right culture; and has it achieved the desired result.

It is no different for the board of directors. Perhaps boards need a periodic review even more so than other teams. Although boards have charters, defined accountabilities and authorities, they do not work like management in executing these on a daily basis.

The use of a board self-evaluation process to improve board effectiveness seems to have an obvious advantage. The code of corporate governance in many jurisdictions, including Singapore, has included this into its recommendations for public companies.

The SID Board of Directors Survey 2008/2009 shows that 72 per cent of the respondent companies adopted collective board evaluation, 47 per cent adopted committee evaluation, and 52 per cent adopted director evaluation. Many reported doing these evaluations 'in house' by the chairman, a lead independent director, the nominating committee or each director using a structured questionnaire or open-ended format (such as interview or group discussion). Only 6 per cent reported using an external adviser to assist in the process.

Regardless of whether it is done in-house or externally facilitated, what is important is getting good data with sufficient depth and coverage, making astute interpretations, and acting on the findings. Based on our experience having conducted board evaluations for many leading companies since the early 2000s, we suggest some guidelines in this article.

Evaluation At Board Level

Each director's view counts in a board evaluation exercise. Directors' views can be gathered via a structured questionnaire

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covering the relevant areas of the board's charter and accountabilities, plus other areas that are key to board effectiveness, such as having the requisite skillsets, chairmanship, a culture of constructive dissent, quality of information, interaction with management, etc.

While pure quantitative data have the advantage of being specific, scalable, and comparable across questions, year-on-year, or with external benchmarks, they lack the richness of qualitative data.

The use of a structured questionnaire is best supplemented with dialogue with the information provider, during which his/her view can be probed and expounded on. With a skilled interviewer, the quality of the information gathered can be significantly greater than simply filling in a questionnaire.

Some supplementary practices at this level include seeking feedback from members of executive management who interact with the board regularly; the external advisers who work with the board as well as other boards, thereby having a good basis to offer a comparison; financial analysts covering the company; shareholders at large, etc. Pulling these various sources of feedback together would provide a more holistic view of the board's performance.

Evaluation At Committee Level

Similar to the board-level evaluation, each committee member should evaluate his/her committee's effectiveness. Committee evaluation is receiving greater attention as more and more of the important board work is done at the committee level. The areas to evaluate are generally the fulfilment of the

committee charter and accountabilities, relevance of the members' skillsets, effectiveness of the decision-making process and conformance to best practices, etc.

Non-committee members should also be given the opportunity to provide observations and suggestions to the committee. This is because, even though an issue may be delegated to a board committee, the committee's role is to make a recommendation to the board, with the board owning the eventual decision.

Evaluation At Director Level

It is hard to assess individual directors who, unlike management, do not have executive accountability and performance measures. Furthermore, board effectiveness is about applying the collective wisdom of the directors, and assessing individuals runs the risk of destroying the collegiality of the board.

In view of these challenges, for director evaluation to be useful, the board needs to have a certain level of maturity as well as receptivity towards feedback.

As directors are often equals, with the chairman being first among equals, peer evaluation tends to work better than a top-down evaluation. The origin of peer evaluation is rooted in professional services partnership firms where a managing partner is selected

among other partners who are highly-accomplished in their own right.

A board, just as any team, is only as good as the individuals within it; therefore, a proper board evaluation process makes the evaluation of individual directors necessary. As the board meets frequently behind closed doors, peer evaluation is probably the best source of feedback. Under some circumstances when a board is less open to peer evaluation, we have introduced self-evaluation as a first step in getting the directors used to the idea of a review and reflection.

Post-Evaluation Activities

With the right evaluators providing the quantitative and qualitative data, what should one then do with the findings? These must be communicated to the right parties in an appropriate manner, leading to greater insight into the underlying issues and generating an improvement action plan.

We would generally suggest the following steps for a collective board evaluation:

- Prepare a summary report and analysis of the findings highlighting the degree of board effectiveness in each area examined, noting areas of effectiveness as well as areas of concern
- Discuss with the nominating committee what was learnt in the board evaluation process and share any additional insights
- Submit the report to each director and place the board's discussion of the findings as a high-priority agenda item that is allocated sufficient time

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- Discuss the findings candidly and openly with each director so that he/she can freely contribute his/her views
- Agree on and approve an action plan to address areas of improvement
- Assign responsibilities and monitor any improvement achieved
- Incorporate achievement objectives into the next round of board evaluation to make it a dynamic continuous improvement process that is more than an annual form-filling exercise

A similar process would apply to the evaluation involving the board committee members.

Where the results of the evaluation concern individual director performance, the generally accepted

approach is for the board chairman and/or the nominating committee chairman, with or without an external facilitator, to discuss the findings individually with each director.

We have seen other practices, such as having directors discuss their own results around the board table, a process that can lead to a much greater extent of mutual understanding. The success of such an approach depends very much on the introspection, confidence and honesty of the individuals participating in the process and the degree of trust and collegiality in the board culture.

In circumstances where the objective of the board evaluation is to assess the quality of board-management relationships (as in an executive management's evaluation of the board), results of the evaluation should be

shared with the executive management team.

While the potential contribution of a board evaluation seems obvious, the implementation process requires careful consideration.

Just as in most management practices, there is no one best way to carry out the evaluation. This is perhaps even more true at the board level because of the unique group culture formed out of the relationships among board directors.

A good starting point is to have a firm commitment from the whole board to put in place an evaluation process.

Searching for the appropriate means becomes the next step in the right direction. Is it worth doing? No, if it is just to tick a box and say that we have done so. Yes, if it is to obtain genuine feedback to make continuous improvement.

As the cliché goes: 'Feedback is the breakfast of a champion.'