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HANSELL BOARD NOTES

The Annual Board Evaluation

I have done many board evaluations over the years. When Canadian boards first adopted the practice of conducting regular evaluations more than 20 years ago, most used written questionnaires. Today there are a variety of methodologies. Questionnaires are still common, but many boards also use one-on-one discussions (with the board chair, governance committee chair or an outside consultant) or facilitated discussions with the full board.

When board evaluations were first introduced, they were often administered by the corporate secretary, with relatively little input by the board. Increasingly, boards are driving the process and are clear about what they expect from it. Directors want a process that is confidential, that elicits constructive and respectful feedback and that produces actionable recommendations for improvement.

This Board Note sets out some thoughts for boards and corporate secretaries in planning the next board evaluation.

1. **Don't Boil the Ocean** – In the course of an annual board evaluation, don't try to cover every conceivable issue. Probe deeply on a few issues that would really make a difference to the board in the coming year. This may come more easily in a one-on-one meeting, with the chair (or governance committee chair) or an external consultant. There are circumstances in which a general governance survey will be helpful or an intensive governance review is necessary. In the ordinary course, however, most boards will benefit from a deeper dive on discrete issues each year.

Deciding which issues should be the focus of an evaluation process requires planning. Key directors and members of management who interact with the board regularly should be involved. Looking back at past evaluations, at the major governance events of the past year and at any board (or board/management) dynamics that require some attention are good places to start.

2. **Question the Questionnaire** – Directors loathe long questionnaires full of routine questions. If you are using a questionnaire, think about which of the following approaches best suits your board and the current circumstances:
 - (a) Crisp and Focussed – Select questions, based on an understanding of the organization's governance, past evaluations and events over the last 12 months (more on this below).
 - (b) Governance Checkup – A more detailed questionnaire that covers the governance landscape generally in order to get a sense of the board's general level of comfort.

- (c) Intensive Governance Review – A detailed questionnaire that addresses high level issues and also probes at a deeper level on each topic. (This can be useful, but I would use this kind of lengthy questionnaire judicially. When the board undertakes an intensive governance review, it is better to minimize the paper and engage in discussion).
- 3. **Ask Tough Questions** – Don't be afraid to ask tough questions and get frank responses. It may seem that experienced directors should know how to do everything right – and so how could any improvement on a board even be necessary. There are two important variables. One is the composition of the board – the individuals who sit at a board together typically don't all work together in any other context. Every group has its own dynamic and board processes may need to be adapted to allow any particular group to work together most effectively. The other variable is the circumstances facing the board. Many of the directors may never have dealt with some of the issues that feature largest for the organization. They may need different pre-reads, different education or different *in camera* discussions than are currently in place. An effective board evaluation process can surface these needs.
- 4. **Don't Overreact to Suggestions for Improvement** – If the evaluation process is well planned and executed, directors will make suggestions for improvement. Directors frequently comment on their pre-reading materials, the amount of time available for discussion of strategic issues and on the type of continuing education available, for example. There can sometimes be an overreaction when directors ask for change. Those in the organization who have been working hardest to promote board effectiveness may be disappointed to receive these requests, or they may be inclined to react more quickly than is necessary or desirable. The board leadership and management should take issues raised by directors in stride, develop a plan to address these issues and communicate this plan to the board. Even the highest performing organizations can find ways to improve.
- 5. **Put the Evaluation in Context** – Annual board evaluations are most useful if they create an opportunity to reflect on the experiences of the last 12 months. That context should be taken into account in developing the approach to each annual board evaluation. Was it business as usual this year? Was there a change in the CEO or board chair? Did the organization suffer a major trauma or engage in a transformational transaction? The mood of the board will be very different at the end of a year that was full of challenge and change than it is in years when it was business as usual. That should be taken into account in developing the annual evaluation process.
- 6. **Mix It Up** – Boards should vary the approach they use to the annual evaluation from year to year. Directors have suffered for many years under the written questionnaire – too long, too repetitive and too little relevance to what directors have on their minds. Questionnaires play an important role as a tool for surfacing issues that should form the basis for discussion in one-on-one interviews. They also have a place as a “light check-in” in years in between those when more intensive evaluations are conducted. However, questionnaires can be customized to focus on important issues while still providing a benchmark against which to measure progress, year over year. Questionnaires should not be used year over year as the sole means of conducting a board assessment.

7. **Consider Including Management in the Evaluation** – Some boards seek the input of the management team in the course of the board evaluation, others do not. There are circumstances in which it is helpful to focus exclusively on director feedback. It is more often useful to solicit the views of management as a mean to enhancing board effectiveness. Management brings a different perspective.
8. **Be Thoughtful about Peer Assessment** – Those outside the boardroom are enthusiastic about peer assessment (by that I mean every director assessing the performance of every other director). Those inside the boardroom (or inside any small working group) understand peer assessment can be invaluable, but can create havoc if it is handled badly. Clear objectives and by-in from the board go a long way to surfacing valuable insights without damaging the boardroom environment.
9. **Disclose your process** – Stakeholders want to know that the board is reflecting on its own performance and on the ways it is improving. In Canada, public company boards are expected to disclose their evaluations processes and in other jurisdictions, they are required to do so. It is important to emphasize that disclosure is limited to the process and does not extend to the input that the directors provided as part of the process. Organizations that are regulated (such as financial institutions) should expect that the regulator will be interested in the process that the board has followed. A thoughtful process will not only withstand scrutiny, but will inspire confidence in the way in which the directors approach their role on the board.
10. **Evaluations are Confidential** – The rubber hits the road in the boardroom. If directors are not confident that their comments in the boardroom will be kept confidential, they soon stop speaking frankly. When this happens, much of directors' most valuable input is lost to the organization. The same is true of board evaluations. If the directors are not confident that the input they provide will be kept confidential, they will be reticent to provide that input – particularly in writing. The annual board evaluation process must be designed to encourage directors to be frank and open in their responses.

Board evaluations deliver valuable information and are an important tool in improving the Board's overall effectiveness. A thoughtful approach to the evaluation process includes selecting the right topics for focus and the right tools for conducting the evaluation.

Best regards,

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