



About IFC Corporate Governance Group

The Group brings together staff from investment support and advisory operations into a single, global team. This unified team advises on all aspects of corporate governance and offers targeted client services in areas such as increasing board effectiveness, improving the control environment, and family businesses governance. The Group also helps support corporate governance improvements and reform efforts in emerging markets and developing countries, while leveraging and integrating knowledge tools, expertise, and networks at the global and regional levels.

Leveraging Board Assessment for Sustained Performance

Elise Walton

Board assessment is a governance practice established to ensure that a board effectively performs its duties. Over the past decade, knowledge about board assessment—and what it can and cannot do for boards and the companies they serve—has increased considerably. This paper sets forth some key lessons learned about board assessment, primarily in the United States and the United Kingdom, and explores how that learning may apply to board assessment opportunities around the world.

Foreword

All boards of directors can improve their effectiveness. Around the world, there should be a certain degree of humility in all directors' minds following the multi trillion dollar collapse of the banking industry and the almost trillion dollar collapse in the mining industry. And let's not forget a decade ago the litany of collapses from Enron and Worldcom to Parmalat and Shell. Or more recently the debacles at BP.

All of these companies had boards of directors who, individually, were people of significant stature, wisdom, and judgment. But collectively, on their watches, they were completely ineffective.

So how do boards actually get better at what they should be doing?

A fundamental tool for enhancing board performance is the annual evaluation. In her article, Elise Walton gives every board a running start on what to do and how to do it. And for those boards reluctant to get started, she offers a beginner's toolkit.

My advice to any chair is to read this paper carefully and then execute against one of Walton's models. Next to regular in camera meetings, the annual evaluation is probably the most effective tool for positive performance enhancement. But, like so many other tools, it is only useful if applied thoughtfully and intelligently.

The chair needs to lead and to lead strongly. The chair's job is not to be only *primus inter pares* but to actively manage the board and to be the CEO of the board's effectiveness. In an interview some years back, the retired conductor of the Boston Philharmonic Orchestra, Benjamin Zander, said, "At age 40, I suddenly realized that the conductor was the only person on the stage who didn't make a sound! I realized my role was to bring the true greatness out of the talent in front of me."

That's a wonderful description of what the chair of a board of directors should be doing: working the talent in the boardroom, both nonexecutive directors and management, to achieve the group's maximum potential. But the board chair works at a significant disadvantage to the orchestra conductor. There is no score to follow. That simply means the challenge of getting the best out of any governance structure is a very tough job.

I have been chair of seven publicly listed companies and have served on well over 30 boards of directors in the United States, Canada, Australia, Mexico, and the United Kingdom. I fully understand that the internal and external circumstances that boards have to deal with are hugely varied and constantly changing. There is certainly no tick-the-boxes magical elixir that will continuously improve board effectiveness.

That's exactly where Dr. Walton's excellent article can help: Board evaluations are very useful in giving a board a fighting chance to improve itself and its performance. But it does require the chair to lead and to lead against some likely headwinds.

A chair must do three things to get the best out of his or her talent:

1. Constantly evaluate the talent on the board. Ultimately the chair is responsible for the skills around the boardroom.
2. Wisely invest the board's time. Most directors devote about 200 hours a year to their directorial responsibilities, so deciding how to use those hours is arguably the most important investment decision made in the boardroom.

3. Skillfully determine the tone of the board, balancing the trust needed around the table with the tension that flows inevitably from the directors having a different job than the managers.

An ongoing “in camera” process is essential for any board to continuously improve, but an annual evaluation, appropriately conceived and designed for the situation at hand, is the ultimate key to success for a board that will be effective.

I would urge all those serving on boards to study Walton’s article and then simply “get on with it.”

*Professor David R. Beatty, C.M., O.B.E.
Member of the Private Sector Advisory Group (PSAG)
Conway Director of the Clarkson Centre for Business Ethics and Board Effectiveness
Rotman School of Management
University of Toronto*

Leveraging Board Assessment for Sustained Performance

Elise Walton¹

Leading and Evolving Practice on Board Assessment

The idea that a board should annually, and formally, check on its performance has been accepted practice for over a decade. The goal was to make sure that boards regularly monitor and assure their own effectiveness and their fulfillment of duties. Introduced as a concept nearly a decade earlier, board assessment became a requirement in the United Kingdom in 2003 and in the United States in 2004,² with the United Kingdom subsequently updating the code to require that the board report on its performance evaluation, including how the process was conducted.³

Globally, few companies and countries have external or regulatory requirements to perform board assessment, but indicators suggest that the practice is spreading. More countries are adopting various corporate governance codes and guidelines, and some of them recommend annual board assessment as best practice.⁴ In other cases, companies interested in pursuing premier governance practices lead the way by adopting board assessment. A recent Latin American Companies Circle survey of member companies found that three-quarters of them carried out board assessment of some sort. A few companies presented their assessment results and action plans at the annual shareholder meeting; other companies performed board evaluation to ascertain whether board members should or shouldn't be re-elected.

Current Choices in Board Assessment

Multiboard directors in the United States regularly report that each board they sit on approaches assessment differently. Generally, directors accept that the process is unique to each company's culture, and they shy away from recommending one right way.

¹ Elise Walton is a senior partner at CLG, Inc., an international consulting firm specializing in executive leadership and change management. She provides highest-level consulting services to large, global organizations, helping them address the critical business challenges they face. Her work focuses on corporate governance, executive leadership and development, and strategic change management. Her clients include large, public multinational firms as well as private firms and non-profit organizations. Elise Walton is a published author and serves on several boards of non-profit organizations. <http://www.clg.com/About/Our-Leadership/Elise-Walton.aspx>

² Simon Osborne, "Board Performance Evaluation," *Private Sector Opinion*, Issue 9 (Washington, D.C.: Global Corporate Governance Forum, June 10, 2008).

³ Institute of Chartered Secretaries and Administrators, *ICSA Board Evaluation: Review of the UK top 200 companies 2010* (London: ICSA, April 2011), www.icsaglobal.com.

⁴ See, for example, Policy Brief on Corporate Governance for Islamic Banks and Financial Institutions in the Middle East and North Africa Region, (Hawkamah Institute for Corporate Governance, South Africa Institute of Directors, 2011).

For most firms, then, the process is customized, and boards have choices, such as the following:

1. **What** gets assessed: Boards can choose which topics to include, as well as specific topics or areas that should be excluded. Assessment may range from simple, informal, open-ended questions such as How is the board doing? to extensive surveys and interviews covering detailed elements of board activity. (Table 1 provides two alternative approaches to what is assessed, and on page 5 of Private Sector Opinion, Issue 9, you may find a description of what gets assessed.)
2. **Who** gets assessed: The full board, committees, committee chairs, individual directors, and the board chair can be assessed.
3. **Who conducts** the assessment process: The chair (or lead director), internal staff (for example, from the General Counsel or Human Resources), or third-party advisors (such as outside counsel, search professionals, strategy consultants, independent advisors) may conduct the assessment.
4. **What methods** are used to collect information: Assessment may include any one or a combination of unique survey, standardized or benchmark survey, formal interview, informal interview, and so on. Surveys can range from short 15-item surveys to 75-item surveys, and question types can range from multiple choice to open-ended. Information methods may also include soliciting input from management.
5. **Feedback practice**, or what is done with the assessment findings: Boards vary widely in how they handle feedback. For example: Is it shared with the board? Does it become an agenda item? Is adequate time allowed for meaningful discussion?

Table 1: Select Options for Board Assessment

“Basic Four” qualitative assessment

- | | |
|-------------------------------|--|
| 1. What is working well? | 3. What should we do differently? (what to start, stop, or continue) |
| 2. What is working less well? | 4. Is there anything we should have talked about that we didn't? |

Comprehensive Assessment

Company Strategy

Does the board understand the company strategy? (environmental context, industry dynamics, competitive strengths, etc.)

Board Stewardship

Does the board provide effective oversight? (risk management, financial oversight, audit, etc.)

Board Practices

Are board meetings well-managed? (timely and useful information, sufficient discussion time, director preparation, etc.)

CEO Evaluation

Does the board effectively evaluate the CEO? (set goals, solicit performance input, timely feedback, linked to strategy, key metrics, etc.)

CEO Succession/Talent Management

Does the board effectively oversee the CEO succession and talent management? (review talent pipeline, get to know talent bench, etc.)

Board Composition and Continuity

Does the board have the right structure? (skill mix, use of skills, resources, culture, etc.)

Committee Performance

Do the key committees operate effectively? (for example, does the audit committee effectively share material with the full board, etc.?)

Board Leadership Performance

Does the chair effectively lead boardroom/committee discussions? (Includes board chair as well as committee chairs.)

Director Performance

Does the individual director effectively contribute to board performance? (Includes skills, engagement, preparation, etc.)

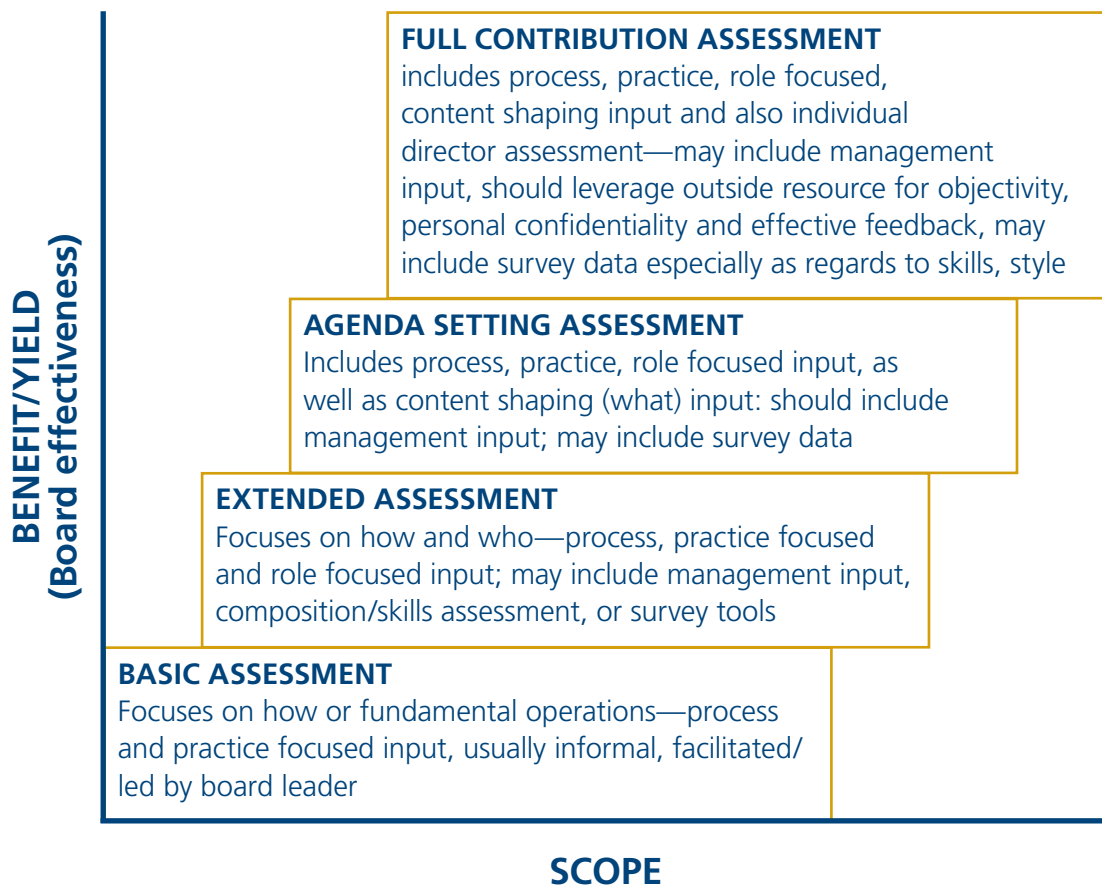
With these choices, the scope of assessments can vary widely, ranging from a simple approach to an extensive assessment. For instance, a simple approach might involve no more than informal one-on-one conversations between the board leader and each director, followed up with a short summary of key points to be shared with the nominating/governance committee or the board. An extensive assessment could be sponsored by the board leader but conducted by a professional third party using a combination of confidential surveys, interviews, and individual assessments, with a structured feedback process to board leaders, the board, and individual directors.

Recent trends show slight growth in the use of external advisors and greater formalization of the process.⁵ However, outside advisors are still used less frequently, and a majority of publicly traded U.S. corporations still use an internally driven process, led by some combination of the board leader, the nominating/governance committee chair, and the general counsel, or sometimes the head of human resources. A small but growing minority of firms conduct individual director assessment.

⁵ Sources: PWC Board Survey 2012; Spencer Stuart Board Index 2013.

Different approaches yield different benefits, and benefits accumulate as the assessment scope grows. Building on research sponsored by the Chairmen’s Forum,⁶ we review four “groups” or types of assessment: basic, extended, agenda-setting, and full-contribution. (Figure 1 shows the progression of assessment scope, and we review each of these in greater depth below.)

Figure 1: Scope of Assessment



Basic Assessment: Continuous Improvement

A basic assessment of fundamental operations—covering topics such as preparation, meeting structure, committee structure, materials, discussions, and duties—offers meaningful benefits. First, basic board assessment brings a board into *compliance* with regulatory or listing requirements specifying that the board annually formally assure that its practices, performance, and capabilities meet current and emerging requirements. As a *self-audit*, the assessment warrants that the fundamentals of good board operations are being met and are current with changing regulation.

⁶ See “Chairmanship: Leveraging Board Assessment for Performance,” <http://www.thechairmensforum.org/>.

Perhaps a bigger benefit of basic assessment is a continuous *improvement in board practices*. Basic assessments have yielded, among other improvements, 1) increased discussion time in the board sessions, by reducing presentation length; 2) better structured pre-reading, with longer advance times; and 3) additional informal time with top-level executives, over a dinner or at an equivalent gathering. One director described how an assessment crystallized the board's decision to implement a new practice.

The Japanese Tsunami hit this company particularly hard. The board thought the corporate supply chain was diversified enough to deal with local disaster, but we found that certain key components that appeared multi-sourced were really dependent on one regional supplier, and our build plan was at risk. In our board assessment, we were self-critical about our lack of preparedness for the tsunami and its aftermath. Based on that assessment, the board agreed to regularly review scenarios and assess disaster preparedness—weather related, technology related, talent related—many things. And working on the scenarios has really utilized the diverse experience and full knowledge of our directors—military experience, Y2K experience, overseas with international relief agencies. Our assessment led us to request that we do a scenario assessment every year, which helped us understand preparedness better and also improved our learning and effectiveness overall.

—Board lead director, Fortune 50 Industrial

A basic assessment **sets a tone** at the top—that self-reflection, open exchange of information, constructive criticism, and candor are all essential elements for continuous improvement. It also **signals stakeholders** that the board is vigilant and self-monitoring. One U.S. director summarized it this way:

Board capability is an important question, and directors, management, shareholders—they're paying attention to how good the board is. I've had investors ask me about the most recent board assessment, what we learned from it, and what we plan to do about it. Thankfully, we had a good process I was happy to talk about.

—Board chair, Fortune 500 Pharmaceutical

A basic assessment approach yields specific benefits: audit and compliance, continuous improvement of board practice, setting the tone, and signaling stakeholders.

Extended Assessment: Improving Roles and Leadership

Building on the basic assessment, the extended assessment includes a focus on roles, behaviors, and leadership (lead directors and chairs). It allows the board to build a solid understanding of who is doing what, and how effectively. Of note, assessment of leadership is required in both the United States and the United Kingdom.

An extended assessment typically includes structured one-on-one interviews that are well-suited for eliciting independent and qualitative opinions on roles and behavior. These interviews typically cover topics that are more sensitive and nuanced than those covered in informal conversations or surveys. One-on-one interviews, conducted in a safe and confidential setting, establish a context for a better understanding of roles and behaviors and, ultimately, for building better relationships in the boardroom.

When this nuanced information is better understood, it helps the board deal more effectively with awkward, difficult, and sensitive topics that face a ***discussability challenge***. These issues, sometimes called “undiscussables,” are frequently raised offline in private or in hallway conversations, or they are vetted in closed circles among like-minded confidants. When these topics remain in one-off, “secret” conversations, they create a rift in the board—between an inner and outer circle, or between different opinion camps. Confidential interviews can shed light on these topics and enable leadership to find a productive and more inclusive path for acknowledging and managing sensitive issues.

Extended assessments may also benefit from third-party support. Here’s how one board chair explained it:

When people share their thoughts candidly through confidential interviews, we can identify conflict points and tensions in advance and be sure conflicts are surfaced constructively and dealt with effectively. And oftentimes I prefer this to be done by an objective third party—they will get better information and can deliver feedback as well. I don’t need to be the person who’s taking sides or calling someone out—I don’t want that legacy in my relationships.

—Board lead director, Fortune 500 Consumer Products

This approach can be particularly helpful for issues involving roles (formal or informal), behavior, or factions. It is helpful in dealing with a dominating director or a new director who shied away from becoming a full-fledged contributor.

Leaders can use this information to effectively *shape roles*—their own and others'. For instance, one board leader changed his leadership style in the boardroom after interview feedback indicated that the directors felt board discussions were too meandering and unstructured. Another board leader changed the committee report process based on feedback from the board and committee chairs.

Agenda-Setting Assessment: Creating a Strategic Focus

When the assessment includes an outlook on what the board should do, the board can identify critical topics it should work on and set an agenda distinct from the management agenda. This *focusing* type of assessment helps the board effectively prioritize—and address—pressing issues. By prioritizing, the board manages *information overload*, which occurs when too much information forestalls meaningful work. One director put it this way:

Many directors complain that boards spend too much time on governance mechanics that crowd out the time for meaningful discussion about the business. The board may get all the checklists right but [not] get to the real work of the board. The only way I know around this is to get the board to agree on the important topics—and putting them on the agenda first. The other stuff has to work in around that. We make sure we agree on key topics by getting input through our assessment, and make sure we're spending enough time on them.

—Board lead director, Fortune 1000 Financial Services

In another instance, one board determined that it needed to better understand the talent pipeline and the talent management system at the company. The board members set this as an annual goal and shaped the agenda to include internal and external education sessions that helped the board, as a whole, better understand the talent outlook and risks for the company.

Agenda setting helps with *information asymmetry*, in which management has far more information about the business than the board does. Proactive prioritizing directs the board's agenda to important areas, as opposed to passively receiving the agenda provided by management. The board thereby identifies the important topics and ensures they receive sufficient agenda coverage—overall, mitigating the risk of a management-captured board.⁷

⁷ Ann C. Mulé and Charles M. Elson, "A New Kind of Captured Board," *Directors and Boards*, First Quarter 2014.

This type of assessment benefits from including interviews with top-level management executives. Such interviews enable the assessment to identify topics that top management finds important—topics that may not have been brought forward in boardroom discussions.

Interviews conducted by a skilled professional can uncover *interpretive differences* that occur when directors working with the same facts reach different interpretations and conclusions. Bringing out different interpretations helps the board understand underlying sources of conflict or confusion. For instance, one board was engaged in a major strategic decision regarding splitting up the company. The board reviewed the strategies, costs, and benefits as part of its formal role, but the assessment uncovered deep discomfort with the current situation, for multiple reasons:

We were faced with the option of splitting the company, and we found out directors were uneasy about management's agenda. I didn't get the scope of considerations running through directors' heads until the chair did the assessment interviews. One director thought management was scheming to get rich; another had calculated potential payouts and was recommending a cap on the CEO's income; yet another estimated the overhead for each independent entity and considered the cost profile under separation untenable. A fourth was worrying about his board seat. Each was taking the facts in their own direction, making effective dialogue debate difficult.

—Board lead director, Fortune 500 Conglomerate

This expanded assessment inventoried multiple opinions and concerns and allowed the board to conduct its strategic discussions more effectively—addressing topics that were sensitive because of different perspectives and interpretations. The assessment identified information that had fallen through the cracks in regular operating board processes, and it identified information that had not surfaced during scarce boardroom time or in hallway discussions.

The above illustrates an important point: board assessments are not independent or separate from strategy work or the basic business of the board; they can be and are an essential supplement to that work. One director of a family-owned Brazilian conglomerate described how assessment played an essential role during merger talks with another family firm. The ability of a third party to assess practices, contributions, and opinions of numerous directors (including family members/owners) was essential to the smooth implementation of the merger. In this context, assessments can be critical supporting tools for implementing strategy and core business activities.

Full-Contribution Assessment: Shaping Relationships and Contribution

A full-contribution assessment builds on the above assessment but adds individual assessment, which brings focus on *individual learning and development* and ensures that each director has the opportunity to engage most effectively. Individual assessment asks directors to confidentially share views about their own contributions and those of their peers. For each director, the facilitator combines all the feedback concerning that director into a confidential report given only to that director. This approach provides directors with balanced, valid feedback—replacing inner-circle conversations and hallway whispers with a robust method for collecting and reviewing data on individual effectiveness. By better understanding how they are viewed by peers, directors can take steps to improve their own behavior, effectiveness, or reputation. For example:

One board member was surprised about how poorly he was rated. He later sat down with the lead director and said, “I want to be a better board member. What do you suggest?” Based on some guidance from peers, he made some changes, and it showed in the boardroom, and it showed in the next year’s evaluation—the director was really improved.

—Board lead director, Fortune 500 Financial Services

Individual director assessment frequently produces two types of findings: first, that new directors need to take a more active role, and second, that dominating directors need to step back a little—feedback that can be directly addressed by behavior in the boardroom. Assessment findings can also indicate that a director is not effectively performing his or her duties—from straightforward issues such as poor attendance or poor preparation, to more complex challenges such as being disruptive or deceptive. When directors fail to take action on behavioral changes that are indicated, the assessment may be the basis for discussions with the director about stepping down or not standing for re-election to the board.

Individual assessment helps the board point directors toward their highest contribution. It also can have a *multiplier effect* in increasing teamwork and collective intelligence. As each director focuses on new behaviors, other directors can provide support and encouragement and the overall interpersonal relations and effectiveness improves beyond the sum of the individual improvements. In this way, individual assessment can help the board become a more cohesive and effective team.

For a full-contribution assessment, handling of the feedback process is particularly important. Treating individual directors with candor, respect, and support is critical. Support is necessary to enable directors to constructively interpret and act on the important information they receive. If feedback is handled poorly, this type of assessment can actually undermine teamwork, confidence in leadership, and the viability of future assessments.

Each board needs to understand which approach is best suited to current needs. Not all boards are ready for—or able to conduct—a full-contribution assessment, with interviews of directors and top-level executives across a range of topics, including individual director feedback.

Preparing to Start: Assessing Readiness

Any company can consider implementing a board assessment, even where there are no formal regulatory or listing-related requirements. However, every board exists in its own context and should consider several factors in implementing a new assessment. Answers to the following questions can help a board design a successful approach.

Do we have a defined goal for a board assessment?

As with most action, it's helpful to understand the goals and desired outcomes. Oftentimes, board leaders sponsor assessments because they want the board to follow best practices. They may also have an intuition or concern that something is amiss—for instance, lack of board alignment, frustrations expressed by the board or management, issues with director or management performance, or board-management relations. Some boards launch a process to explore what, if anything, might be done better. Identifying the assessment goals and desired benefits will help the board determine which approach to take in conducting a board assessment. (See Table 2.)

Table 2: Assessment approaches and their benefits

Task-Focused Assessments	People-Focused Assessments
<p>Basic Assessment</p> <ul style="list-style-type: none"> • Facilitates compliance and self-audit • Helps achieve continuous improvement for basic operations • Sets the tone • Sends a signal to stakeholders <p>Agenda-Setting Assessment</p> <ul style="list-style-type: none"> • Creates focus (addresses information overload, information asymmetry) • Leverages perspective differences (addresses the interpretive challenge) • Builds alignment and shapes direction (addresses the integrative challenge) 	<p>Extended Assessment (Roles and Leadership)</p> <ul style="list-style-type: none"> • Shapes chair and board leader roles • Builds insight and relationships • Creates openness (addresses undiscussability) • Models learning values • Builds influence <p>Full-Contribution Assessment</p> <ul style="list-style-type: none"> • Individual learning and development—improves behavior via feedback for each individual • Has a multiplier effect on individual director contributions • Strengthens team effectiveness

Do we have a leader to champion the effort?

A chair, lead director, or chief executive officer is an ideal sponsor and advocate for a board assessment. For the most effective process, *both* the board leader and chief executive officer are active advocates, particularly if the company is private or otherwise has substantial ownership in the boardroom. The views of other directors, top-level insiders, and external advisors can be valuable, but the people in these roles may lack the authority or influence to be sole champions of the process. However, they can be powerful influencers on the key decision makers, especially if they build a quorum of support.

Giselia da Silva, co-leader of the working group on board evaluations of the Latin American Companies Circle, reinforces this need for top-level sponsorship and advocacy. “One of the most important things for performing [an assessment],” she says, “is having the commitment of the chair of the board. Otherwise the assessment is just a checklist...”⁸

⁸ “Insights from the Latin American Corporate Governance Roundtable and Companies Circle Governance Roundtable Annual Meeting” (IFC, Lima, Peru, November 29–30, 2011); Interview clip available at <http://www.youtube.com/watch?v=T50LPgi5B6I>.

Do we have credible, trusted support for the process?

An experienced advisor not only provides support for the assessment process but also is an invaluable ally in ensuring process excellence and fit. A board advisor—often external—brings tools and lessons from other boards and can design an approach that can work in a board’s own particular circumstance. Experienced outsiders will know how to create the clarity of process and feedback that is critical for assessment success.

Do we have a willing board?

It is not unusual to encounter resistance to assessment—especially to individual assessment. Some objections may be valid, such as timing, competing efforts, process-related or capability-related issues.

A common concern is that assessments will create a discoverable document trail, resulting in a downstream risk. Helping directors understand how the assessment will be conducted, including steps to safeguard information, may allay those concerns. Few directors report that assessment documentation has incurred a material risk, and most assessments commonly destroy related documentation, if any exists. The bigger real risk is failure to follow through on insights gleaned from the assessment.

It’s a good idea to be alert to passive resistance or subtle sabotaging tactics. For example, a director may give the appearance of going along with the proposal while privately doubting whether it will really happen or whether it will be of any value. This can create undermining behaviors, such as the “group attribution” objection: “I’d be willing to do it, but I don’t think the [board, chief executive officer, chair] will go for it,” or gaming behavior, where directors conspire to slant or bias results toward personal agendas. Also, long-tenured directors may feel they have little to gain, overlooking what newer directors might learn about group opinion as well as personal effectiveness. Lack of support and authentic engagement can be costly when assessment results are biased, and thus do not present valid information for understanding or action.

It’s worthwhile to test for board readiness and support—but not to become hostage to an expectation of universal approval. Generally, directors will fall into line behind a motivated sponsor, a meaningful goal, and a reasonable process. And many doubting directors have become passionate advocates for assessments once they’ve seen the process all the way through and experienced its benefits first-hand.

Is the assessment fit for the context?

Many board leaders recommend launching an assessment processes when things are good, which allows learning, skill building, and orientation to occur with less pressure. That way, the newly acquired skills will be in place should they become needed in more trying contexts.

If the board is embroiled in political infighting, ownership battles, and other contentious, high-stakes struggles, a board assessment should be undertaken with caution. Under such circumstances, the assessment process could unwittingly amplify contention or become a pawn in a battle where input is used to game the results. Launching an assessment process during trying times may also increase the possibility that results will fall into the wrong hands or be taken out of context and grossly misinterpreted.

Equally important, the assessment process must be congruent with local regulations, practices, and cultural norms. Consider the following two specific contexts:

1. The ***home-country environment***, from an economic, cultural, and regulatory perspective: In markets where ownership is tightly aligned with ruling families, boards operate more in an advisory capacity than in the true overseer role seen in Western models. This difference in role changes the focus of board assessment. National regulations, their consistency, and the due paid to them by investors or owners also makes a difference in how effectively governance mechanisms work. In addition, certain Western management practices do not transfer well to other countries and cultures. For instance, while board leader feedback is a requirement in the United States and the United Kingdom, more formal or hierarchical cultures may find it countercultural and awkward.
2. The ***ownership model*** of the firm: Privately held firms, most notably, have a different model to deal with. Private boards have different charters and usually have active, powerful owners who are involved at some level. In considering board assessment, family firms need to take into account family roles in management and on the board, and they may need to be concerned about family-based politics, including rivalries/alliances. Privately held leadership transitions will have a heavy dose of family/owner involvement in ownership, governance, and management.⁹ If the goal is to improve enterprise and systemwide performance, a good assessment must uncover the influences of private owners or the family.

⁹ Kalin Gersick, *Generation to Generation: Life Cycles of the Family Business*, (USA: Owner Managed Business Institute, 1997).

An experienced advisor can adapt and design the assessment process to best fit these different circumstances—the board’s unique operating context as well as the national environment and the corporate ownership model.

Will results be used and useful?

Perhaps most important, the assessment should result in action. Action is essential, and valid feedback is essential to action. Without feedback—delivered to the full board and, as appropriate, to individual directors—change or improvements will not occur in a focused, beneficial direction (as opposed to random change, which can always occur).

Effectively delivered feedback also supports the sustainability of the process. Directors can support a process that leads to valid information and informed action, and that creates sustainable and supported change. When the process is quickly dismissed as a checklist completed—or appears as a one-time event with no follow-through—it not only undermines the work done but also weakens the credibility of the process or support for future assessments.

Planning and organizing the feedback is an important task of the board leader and anyone supporting the process, whether they are internal or a third party. General rules of good feedback apply: make the feedback specific, pinpointed, actionable, and constructive. When possible, keep critical feedback in balance with positive feedback.

Are investors or owners interested?

It is important to consider if and how to communicate with investors, owners, or other outsiders who may want to understand the insights from a board assessment. Forward-thinking boards use self-assessment as part of a positive communication strategy—making sure stakeholders know they are keeping their eye on the ball and that the board is fit for duty. There can be insight building conversations constructed around key messages from the assessment.

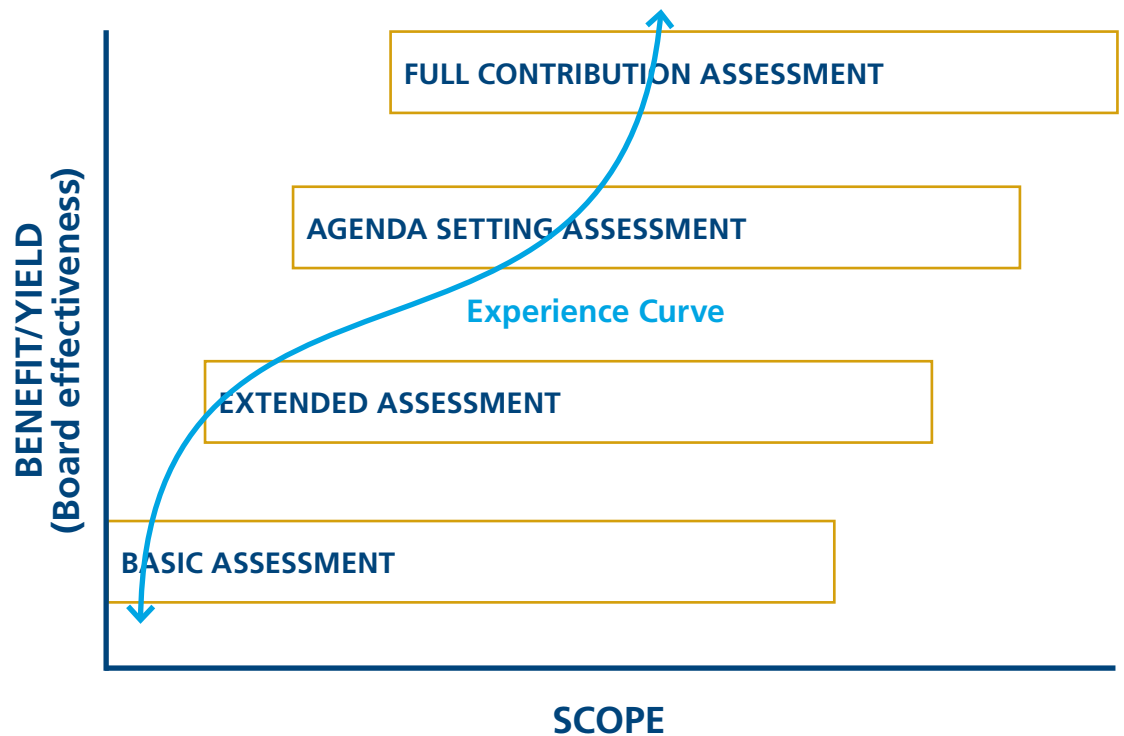
Getting Started: Choosing Your Approach

It’s hard to imagine any successful group or great team that doesn’t seek the benefit of self-study and reflection. For instance, it is a common practice of U.S. athletic teams to review game-day performance; that’s how many teams identify potential improvements. Of course, boards are not likely to review videotapes of their discussions, debates, and decisions, but a board assessment provides a practical alternative.

Board assessment is a highly effective tool for board development and improvement; even excellent boards can benefit by keeping insights fresh. Boards working in complex situations, such as family-owned companies or stated-owned companies, may particularly benefit from an assessment, which can bring issues to the surface to be addressed before they fester and grow.

Boards that have never performed a self-assessment may benefit from a staged approach (as illustrated by the *experience curve* process shown in Figure 2). For first-time assessments, it may be best to start with the *basic assessment*, a simple process that will focus primarily on practices and can be conducted by a partnership of an outsider with the board leader. As experience builds, the board can move to an *extended assessment* (assessing leaders, roles, and behaviors) and an *agenda-setting assessment* (prioritizing topics). Eventually, as the board matures and builds on earlier successes with assessment, it can tackle the more challenging *full-contribution assessment*, providing individual directors with an assessment and feedback.

Figure 2: Experience Curve



Summary: Reaping the Benefits of Board Assessment

The growing practice of boards to voluntarily assess their own performance and effectiveness bodes well for corporate governance. Self-assessment allows boards to choose what, when, and how to assess. (Table 3 below provides an overview of how often the boards surveyed perform self-assessment for specific functions.) When properly designed and carried out, board assessment not only improves the performance of the board, but also benefits the individual directors and executive leaders, and strengthens the enterprise as a whole.

Table 3: Frequency of reported practices in board assessment—U.S. Companies¹⁰

Practice	Frequency*
Evaluation Topics or Focus	
Context or Goals Corporate Mission, Strategy, Goals, Industry/Market Issues, Regulatory Issues, Risk, Shareholder/Stakeholder Relations, Board Goals/Agenda	Moderate
Design Composition/skills, Structure, Bylaws	Frequent
Behavior/Practices Meeting agendas, Information sharing, Director preparation, Clarity of discussion, Use of time, Inclusion, Reflection & deliberation, Behavior	Frequent
Performance/Oversight Fiscal oversight, CEO succession, CEO evaluation/compensation, Sustainability, Board capability, Board performance against goals, Individual contributions	Moderate but increasing
Individual Directors	Infrequent
Board/Committee Leaders	Frequent
Committees	Frequent/required
Full Board	Frequent/required
Resources	
Use chair or Nominating and Governance Committee chair only	Common
Use Governance Committee/Corporate Secretary	Common
Use Outsiders	Moderate
Other (HR, other committees)	Infrequent
Methods	
Informal conversation by chair/Nominating and Governance Committee chair	Frequent
Formal Interviews by chair/Nominating and Governance Committee chair	Moderate
Formal interviews by outsider (non-director)	Moderate
Survey	Common
Combined methods	Common
Feedback	
Nominating/Governance Review and summarize for full board	Frequent
Full board discussion of full report	Moderate
Committee Review	Frequent

* *Frequent*—practiced by a large majority of boards surveyed; *Common*—practiced by a small majority of boards surveyed; *Moderate*—practiced by a large minority of boards surveyed; *Infrequent*—practiced by few boards.

¹⁰ From an upcoming research article to be published on the Chairmen's Forum website: <http://www.thechairmensforum.org/>.

© Copyright 2014. All rights reserved.

International Finance Corporation
2121 Pennsylvania Avenue, NW,
Washington, DC 20433

The findings, interpretations and conclusions expressed in this publication should not be attributed in any manner to the International Finance Corporation, to its affiliated organizations, or to members of its board of Executive Directors or the countries they represent. The International Finance Corporation does not guarantee the accuracy of the data included in this publication and accepts no responsibility for any consequence of their use.

The material in this work is protected by copyright. Copying and/or transmitting portions or all of this work may be a violation of applicable law. The International Finance Corporation encourages dissemination of its work and hereby grants permission to users of this work to copy portions for their personal, noncommercial use, without any right to resell, redistribute or create derivative works there from. Any other copying or use of this work requires the express written permission of the International Finance Corporation. For permission to photocopy or reprint, please send a request with complete information to:

The International Finance Corporation c/o the World Bank Permissions Desk,
Office of the Publisher, 1818 H Street, NW,
Washington, DC, 20433

All queries on rights and licenses including subsidiary rights should be addressed to:

The International Finance Corporation c/o the Office of the Publisher, World Bank, 1818 H Street, NW, Washington DC, 20433; fax (202) 522-2422.

OUR DONOR PARTNERS



LE GOUVERNEMENT
DU GRAND-DUCHÉ DE LUXEMBOURG
Ministère des Finances



Schweizerische Eidgenossenschaft
Confédération suisse
Confederazione Svizzera
Confederaziun svizra

Swiss Confederation

Federal Department of Economic Affairs,
Education and Research EAER
State Secretariat for Economic Affairs SECO