

# Board Self-Assessments: Here For Good

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Since the New York Stock Exchange (NYSE) required annual assessments for the boards and major committees of their listed companies in 2004, the number of boards engaging in a self-assessment process has dramatically increased. Today, boards of all types of companies—non-NYSE and even non-profits—have embraced the trend on a voluntary basis.

More than ever, board self-assessments have become an expectation of investors and non-governmental organizations (NGOs) whose organization's purpose is to influence corporate behavior for the better. For example, Risk Metric Group's ISS Governance Services now includes board and committee assessments as a factor in assessing and ranking a company's corporate governance practices, regardless of whether the company is listed on the NYSE or another exchange.

How many companies are performing board assessments today in the U.S.? In the 2007 *NACD Public Company Governance Survey*, 81 percent of respondents said that their companies perform full board assessments annually; 79 percent perform committee assessments annually; and 38 percent perform individual director assessments annually. Furthermore, 71 percent of the respondents served on public company boards of which half were large-cap companies. Only 48 percent of the respondents served on boards of companies that are listed on the NYSE.

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demonstrate the pursuit of best practices in corporate governance.

## Why Assessments Matter

Boards today are under a microscope like never before. The traditional standards by which boards have governed under state law remain the same, but the interpretation of their meaning is evolving. With the increased demand for corporate transparency, there are many good reasons for considering board assessments.

**Promote Good Governance:** Without a system of benchmarking and self-assessment, it's difficult to gauge whether your organization is utilizing corporate governance best practices. An effective self-assessment can identify gaps that may exist in the company's governance and also confirm the things you are doing correctly.

**Improve Performance:** As a board, you already insist on performance assessments for your management team. By implementing self-assessments, you can lead by example and send a strong message through the organization that you are holding yourselves, as well as management, accountable and that you expect continued improvement in performance from everyone.

**Improve the Bottom Line:** Experts have shown that stronger corporate governance ratings dovetail with stronger financial results for a company. A recent Global Investor Study by ISS Governance Services showed that 70 percent of institutional investors describe the corporate governance of their portfolio companies as "important."

**Reduce Risk:** The assessment process can be designed to find out what the board is comfortable with and what it needs to enhance the compliance area. Companies that engage in an assessment process are likely to create more effective compliance programs and oversight appropriate to their businesses that may limit their legal exposure.

**Strengthen the Board-Management Partnership:** Self-assessments that are managed well promote dialogue about issues that might lie just beneath the surface, obstructing the relation-

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**Director Summary:** A board self-assessment is a hallmark of a vital board. Regulatory standards demand it, ratings organizations recommend it, and good governance practices rely on it. If your board is not already on the bandwagon, the authors show you why the time to step aboard is now, and how to do it.



ship between the board and management. Once the issues are revealed and addressed, the communication between the board and management is strengthened.

**Help Set and Manage Expectations:** Assessments can be used to collectively define what board members expect from management with respect to information included in advance board packages, the format of the meetings, and the board's role in the development of business strategy. They can be used to set the board's compass and to refine its charter and the charter of each committee.

The assessment process can be an eye-opening experience for those looking to answer tough questions about how the board should govern in the best interests of the shareholders. The great majority of directors who have been through board assessments—including individual assessments—say the process was valuable. According to “What Directors Think 2005,” a survey of 1,103 directors conducted by *Corporate Board Member* magazine and PricewaterhouseCoopers, 67 percent rated the full-board assessment process as either “very effective” or “effective” and 71 percent rated the assessment process as a “meaningful experience.”

### Who Should Champion the Process?

Including the right people in the self-assessment process is critical to a successful outcome. There must be a trusted leader who understands that the integrity of the process is paramount, and that diplomacy and confidentiality are of utmost importance to get individual directors to open up and share what is on their mind. For that reason, many companies choose the lead independent director or the non-executive chair of the board to lead the process. The process may also be led by an independent committee, such as the governance or nominating committee. Consultants or outside counsel may be used as advisors but the assessment must be championed and owned by the board itself—the responsibility cannot be abdicated.

The selected leader should make it a priority of business to ensure that the board knows the reasons for the assessment, understands the implications, approves of the concept, and is prepared. During a meeting with the board, the leader should explain how the process will unfold, the confidential nature of the process, how the information gathered will be summarized and presented to the board, and how the information will be used to target opportunities for improvement.

### Planning for the Assessment

There are several important considerations when preparing to evaluate a board.

**Level of Detail:** Decide whether you want to evaluate specific issues. For example, are directors getting enough

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information and getting it in a timely manner? How can the board help the CEO develop better corporate strategy?

**Focus Areas and Goals:** Identify the key areas of focus and goals for the assessment. For companies that already have committee charters and corporate governance guidelines in place, the board can use them to help identify the performance measures that will be used during the process.

**Type of Assessment:** Interviews, interactive dialog, quantitative surveys, or any combination of these may be used in a self-assessment. Quantitative surveys tend to be easier to keep anonymous and allow for progress to be measured over time. Ad-hoc, loosely structured assessments are not as likely to be as effective as a structured methodology. The combination of a survey and interviews, followed by a general discussion of findings, seems to yield the best result.

**Confidentiality:** Most experts recommend that the board-assessment process and individual answers to questionnaires be kept anonymous, especially if they involve peer assessments. Anonymity and discreet summaries allow directors to be more candid with their feedback, and will result in more accurate input on which the assessment and action plan can be based.

**Timing:** Consider how much time should be allotted to the self-assessment and ensure the scheduling fits with the board's other priorities.

**Presenting the Findings:** Discuss with your board and company counsel how the results of the assessment will be presented—verbally or in written format. Consider developing rules of engagement for discussions with the board, and be sure to consult company counsel regarding privilege issues.

**Legal Risk:** In addition, secure the advice of counsel regarding the risk associated with any self-assessment process and the recommended steps to mitigate that risk. Once the questionnaire is developed, it should be reviewed by company counsel.

### Web-Based Portals

Web-based board portals offer a secure tool for conducting board assessments. Secure links can be sent to



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directors, enabling them to take surveys online from any location at any time. Survey responses can only be viewed by designated respondents. Results can be quickly collected, analyzed, and compiled into a report with just a click of a button. Board portal survey tools also provide value by storing the survey questions for reuse or modification for the following year.

Portal tools may also facilitate compliance with company counsel recommendations regarding privilege issues, mitigation of potential legal risk, and document retention requirements.

### Follow Through for Change

Once the survey questionnaire has been completed, the facilitator analyzes the results and prepares a report on behalf of the board leader to be shared with the board members. The report includes a summary of strengths and weaknesses and points of discussion, and is presented objectively and in a way that preserves confidentiality.

Before the results go to the full board, the assessment facilitator and board leader should meet with the governance committee chair to identify any particular areas that may be ripe for improvement. For full board assessments, the board leader or governance committee chair will want to schedule a meeting with the board to engage in a candid and constructive dialogue on the results.

The meeting of the board at which the board leader or the governance committee delivers the final report and recommendations presents an opportunity to discuss issues constructively and develop an action plan. Experts suggest that formal board assessments should be done annually to provide a basis for continual improvement.

### Conclusion

Board assessments are effective tools that promote good governance practices, and it is clear that they are here to stay. A self-assessment can help a board improve the bottom line, strengthen board-management communications, improve compliance, reduce legal risks, and set its own compass. Web-based survey tools add value when conducting board assessments by making the process more efficient and secure. ■

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