

The Value of Undertaking a Board Assessment

You Need to Conduct a Board Evaluation... So Why Not Do It Right?

*A board assessment is
not an end in itself;
it is a tool for
self-reflection, growth,
and improvement.*

Discovering the Real Value of a Board Assessment

There are several good reasons for undertaking a board assessment. Publicly traded companies are required to do so on an annual basis, and other companies voluntarily comply as recommended by governance best practices. Board assessments have also become an important metric, one that is often factored into an organization's overall governance rating. In our experience, the best reason to undertake a board assessment is to create a valuable tool for ensuring a well-functioning board that can be used to track year-over-year performance.

Perhaps you already recognize the push and pull to undertake a rigorous board assessment. The natural follow-up questions are, therefore: What is your approach? How will you go about it?

Once you have decided to undertake the board assessment, take a step back for a moment. Deciding what the board ideally wants to gain from the assessment, and how it might leverage the results, will help guide you toward the right approach.

Much like anything worthwhile in creating organizational excellence, the thought, planning and effort your board invests in an assessment is directly related to the value that emerges from it. While basic measures may allow you to satisfy external requirements or expectations, we have found that board assessments conducted without attention to both potential pitfalls and best practices can actually undermine key relationships and board effectiveness.

If you are just getting started down the board assessment path, or considering what more your board could be doing, perhaps our best thinking on board assessments, based on our experience working with for-profit and non-profit boards, can help guide you.

Determining an Assessment Approach

When it comes to board assessments, there are many different options to choose from. While assessments are now a requirement for public companies – and widely considered a best practice for non-profits – the specifics of what actually *has* to be accomplished and *how* is open to interpretation.

For a new board or a board that has never undertaken an assessment before, there are many off-the-shelf surveys that may adequately address assessment needs, and that, at the very least, will help familiarize the board with the assessment process.

A more mature board – or a board in an industry where off-the-shelf assessments are not suitable or available – may need to take a more layered approach, involving perhaps both a customized survey and a series of interviews. Note that yearly interviews may not be necessary, and could be conducted every other year, or even less frequently, depending on assessment needs.

Each assessment approach has both its advantages and its limitations. Ready-made surveys, for example, may be well-designed for what they measure, as well as cost-effective in the short-run. In our experience, however, we have found that ready-made assessment tools tend to yield fewer long-term benefits. Customization, on the other hand, should be viewed as more of an investment in ramping up board performance. This approach may require outside help to administer, but has the added benefit of being tailored specifically to a particular board, which can yield greater insights, generate rich discussion, and lead the way to improvements.

If the motivation to undertake a board assessment is to fulfill regulatory requirements and the board does not have the appetite, energy, or time to participate in a more robust process, a ready-made assessment tool can be perfectly serviceable.

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But for boards that are willing to make the investment and do the initial ground-work required, a well-designed assessment tool tailored specifically to the needs and issues of a particular board can significantly boost the board's ability to work together as a team and engage effectively with the CEO.

The value of a tailored board assessment approach lies in:

- ***Generating conversation and insights*** – This involves a process in which the data is converted to knowledge, the knowledge converted to insight, and the insight converted to action. The board engages in meaningful dialogue, makes sense of the data and develops a plan of action to tackle the areas that fall short of their expectations.
- ***Engaging the board about its work and potential value*** – A thorough board assessment is a great jumping-off point for a board to set priorities and examine what it should focus on, what structures work best, and how it can improve. But the assessment process is only the beginning, and if it does not lead to next steps, such as priority setting and developing a work plan for improvement, it is only a partial success.
- ***Quantifying the competencies required for success*** – A customized survey and follow-up interviews are good ways of gathering directors' input on specific competencies that are either lacking or in need of development on the board. This may include such capabilities as strategic oversight, keeping up with industry developments, or, in the case of a nonprofit board, serving as a citizen advocate.

- **Monitoring progress year over year** – Whether the board uses a ready-made or customized assessment tool, evaluations can be used year over year to assess how the board is performing. The first year is useful for establishing a baseline to which the board's performance can be compared and tracked on a long-term basis. Because board membership changes over time, particularly in public companies that have annual elections, it is our opinion that it is particularly important to assess the board as a whole on a regular basis. Annual assessments, when done properly, are focused on assessing the entire board rather than individual directors.
- **Creating a distinctive and effective board culture** – While it may not be the primary reason boards engage in assessments, one of the benefits is that it lends itself to the development of a unique and productive board culture.

The care and nurturing of such an entity means that the board develops its own character, which remains and has value, even as members may come and go. The process also communicates to the organization and shareholders that the behavior of self-reflection and continuous learning starts at the top. If boards want their CEO and management team to be assessed on a yearly basis, the board should lead the way by demonstrating the spirit in which the assessment should be conducted and received.

In sum

In the end, board assessments should not be considered in terms of fulfilling a narrow requirement; they are about creating something of lasting value for the board, CEO, the management team, and the company. When deciding which route to take on the road to a board assessment, think twice about taking a shortcut. Doing so may result in shortchanging your board. Regular, rigorous, thoughtfully planned and implemented board assessments are among the best tools boards can leverage to increase their overall effectiveness.



Nygren Consulting is a governance consulting firm whose clients include both corporate and nonprofit boards in a wide range of industries. We consult in three principles areas: Board Effectiveness, Organizational Strategy, and Executive Leadership. Learn more about us at www.nygrenconsulting.com.

For more information on this topic, or any other challenges your board may be facing, please contact:

David J. Nygren, PhD
david@nygrenconsulting.com

JoAnn M. McNutt, PhD
joann@nygrenconsulting.com

Insights from Our Clients

David Emery, Chairman, President and CEO, Black Hills Corporation

Our first attempts at board and committee assessments were a good, initial step but they didn't add a great deal of value in developing individual directors and to our work as a board. Assessments were very limited in scope, mostly oriented toward filling out surveys and adding up a score, but there was no feedback loop, and very little follow-through.

When we opened up the process, we decided to leverage the information we collected as the basis for candid conversations to improve our effectiveness as a board. This has meant implementing a far more rigorous director assessment process, including articulating and ranking the skills we need to add to the board, as well as evaluating the performance of each current director. But getting value from a board assessment means going far beyond the board, committee, and director evaluations.

In our case, we were focused on creating a more collaborative working relationship between management and the board. There was a lack of understanding of roles and expectations on both sides. The board members did not agree about expectations from management – some directors were focused on policy and strategy, while others were more focused on operating issues. Using the feedback from the assessment process, for the first time at a board meeting, the board and management were able to discuss and agree on mutual expectations and a path forward. Subsequent meetings ran much smoother and were far more focused, in part because the board had agreed upon

and set clear expectations for management; and management had listened to and acted upon that feedback. Advance materials now include a simple overlay summary page for each board presentation with key takeaways, and a revised agenda format provides guidance on which items need approval versus items for discussion or information only.

We've come a long way. We developed from a board of a small regional utility, where board members were primarily selected for their ability to be influential in local communities. As the company grew and expanded in geographic scope, we got a better handle on the competencies we needed on our board and where the gaps were, and modified our criteria and objectives for directors accordingly. We added new board members, including public company CEOs, CFOs, and others who had a good understanding of the role of the board in setting strategy and policy and the responsibility of management to execute and oversee the day-to-day operations.

We have deliberately raised the level at which the board is involved, toward input on strategy and policy and away from delving into management issues and detail. Consequently our discussions as a combined board/management team are now more impactful and meaningful.

The Board assessment has enabled us to derive the greatest value from the skilled, experienced directors who comprise our board. The process was easy to implement, thoughtful changes have yielded big results.

Frank Perez, CEO Emeritus, Kettering Health Network

We have always had a board assessment process. We traditionally used 360° instruments on a regular basis, and we were recognized as progressive compared to most similar organizations. But I always thought we could do better.

We wanted to encourage more engagement with our board and challenge their thinking, rather than just having them respond to a survey. About eight years ago we started on a new round of assessments. We consciously made the process as non-threatening as possible initially. With a runway of three to seven years until my retirement, I began to engage the board in evaluating senior management and where there were opportunities for improvement in both the management team and the board's governance process.

I got exceptional feedback and used it to create a "to do" list to make improvements in the governance process, including board meetings that were more substantive, not just listening to reports. We also had a special executive session of the board, which enabled us to identify two internal candidates for my succession. We learned that we didn't have to go outside, that our talents compared very favorably to potential external candidates.

We took the process down to our core competencies and core values. And while we had always had

60-70% participation from the board, we pressed to get 100% of directors involved.

As we got closer to the transition, we did an in-depth board evaluation, including a much more detailed peer evaluation, which provided helpful feedback for our new chairman on his style and governance competency skills. And for each individual director, we emerged with a multi-dimensional picture of his or her strengths and weaknesses on a wide range of leadership and "boardmanship" functions. We used all this feedback as the basis of a development plan for each board member. As we took stock of the skills we had on the board, in a few cases, the evaluation process resulted in non-reappointments.

But this turned out to be far more than an evaluation process for us; it was an education process, and it was transformational. It enabled the board to come together as a cohesive force, and that led to a very smooth transition once we were of one mind. These changes also brought other hospitals into our network, because they admired our culture of openness and participation. And it has served as the best possible orientation for new board members as they join us from other board cultures: they understand our mission and values, what our expectations are of directors, and how we work together.