

# Three critical questions you should ask about your board evaluation

*You should know what it is you are aiming for before embarking on an evaluation process.*

BY BONNIE W. GWIN AND CAROLYN VAVREK

ACCORDING TO the National Association of Corporate Directors' 2011 Governance Survey, more than 90 percent of boards conduct full board evaluations and almost 83 percent conduct committee evaluations. However, the same survey says that less than half of boards evaluate individual directors and only slightly over 10 percent have management evaluate board members as part of a 360-degree review. Further, less than 20 percent of boards use an objective third party to help conduct board assessments.

Boards that lack a robust evaluation process are unable to help directors improve their performance individually and collectively and to address poorly performing directors. In fact, the 2011 Board of Directors Survey (sponsored by Heidrick & Struggles and Women-CorporateDirectors, and conducted by Dr. Boris Groysberg of Harvard Business School and researcher Deborah Bell) found that over one-third of U.S. directors think their boards don't know how to deal effectively with poor performers, a potentially disastrous situation for a board and a company.

The lack of fully comprehensive and objective assessments suggests that many boards may be more interested in checking the box that says "Yes, we conducted an evaluation" rather than in answering

what we believe are three critical questions they should be asking about board assessments: What kind of board do we aspire to be? How can we control for natural biases? Do we have the courage to act?

Depending on how you answer these questions, you could take your board assessment process to the next level and, ultimately, to the very highest level to become the best performing board possible.

## What kind of board do we aspire to be?

There is of course no shortage of advice about *how* to conduct better assessments: what questions to ask about board composition, agendas, meeting mechanics; what self-assessment questions to consider; and how to conduct interviews with individual directors. But there is a much more important consideration prior to the question of how: *Why* conduct the assessment?

Are you doing it merely to satisfy requirements like that of the New York Stock Exchange that listed companies assess the performance of their boards annually? Are you doing it with the laudable but vague hope of improvement — better meetings or perhaps inspiring greater contributions by individual directors? Or are you doing it to determine precisely where the board stands

in terms of its performance as a board and what specifically you need to do to improve that performance if you're not satisfied?

Best practice today is not merely to start with a generic list of questions or constructing a basic evaluation process, but to first determine the board's aspiration as a group. For example, some boards may find that they are satisfied with assessing compliance and tinkering with board mechanics. Others may aim higher. But in any case, you should know what it is you are aiming for before embarking on an evaluation process.

In our experience, we have found that there are four types of boards, which may also be thought of as levels of aspiration or stages of board evolution:

- **Basic Board = Essential Compliance.** Such boards satisfy core governance and compliance requirements, and they define and implement key board processes. This is the bare minimum and where most boards begin.

- **Developed Board = Forward Looking + Essential Compliance.** On developed boards, the members' competencies and capabilities are aligned with requirements of the company's strategic objectives. These boards take care to define the core technical and business capabilities needed on the board and make sure the

board has those capabilities. This is where most U.S. boards operate today.

- **Advanced Board = High Performance + Forward Looking + Essential Compliance.** These boards are well stocked with members who have a global mindset and are accustomed to operating in global networks. They also have high intellectual and emotional intelligence, enabling both useful debate and positive engagement with others. Advanced boards devote significant attention to talent development; they mentor executives and regularly address succession issues and gaps in the board's skills. The step change between being a developed board and an advanced board is significant. It involves not just composition changes, but also behavioral changes that introduce diversity of opinion and constructive conflict, which can be uncomfortable for many. This step change does not naturally occur without deliberate intervention.

- **World-Class Board = Strategic Asset + High Performance + Forward Looking + Essential Compliance.** A world-class board is as rare as a world-class athlete. It works as a genuine, fully engaged team whose contribution is far greater than the sum of the parts. The group brings a breadth of knowledge, a diversity of ideas, and a depth of insight that helps management create additional shareholder value. As one CEO says, "It's like having the best consultants in the world at your disposal — they know you, they care about your business, and they support you by thoughtfully challenging you on your toughest issues." But they are also candid about their development needs, routinely seeking to reflect on and improve their individual and collective performance.

As these types or stages suggest, improvement is a journey — a development

process that you embark on as a group with a clear idea of how far you want to go. When you have a defined benchmark and clear criteria for measuring your success along the journey, you can then construct an appropriate assessment

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strategy, mechanics, and a system to implement and sustain the development. Typical evaluative parameters against which to measure success include: (1) the board's strategic alignment and engagement, (2) composition and structure, (3) processes and practices, (4) culture and dynamics, (5) relationship with management, and (6) the personal effectiveness of each director.

#### **How can we control for natural biases?**

Conducting a board assessment would seem to be a simple matter of conducting the assessment, plugging the results into a formula, and receiving a clear diagnosis. It's not. No matter how finely calibrated the possible responses to a

set of questions, how carefully constructed an interview, or how many points of view are gathered, the results have to be interpreted. Some simple items, like preferences regarding meeting mechanics, might be unambiguously clear. However, many of the most important issues, like board dynamics, cultural challenges, team effectiveness, and much of the most important data — like what is discussed in the interviews and the real meaning behind peer-to-peer reviews — require highly nuanced interpretation.

All of the thought and work that goes into the assessment is wasted if you are unable to answer the second of the three critical questions about your assessment: How can we control for biases? Consider just a few of the interpretive problems:

- **Points of reference:** In assessing the performance of boards, we have found that board members tend to rely on comparisons with other boards on which they have served. Yet individual board members may have had widely different experiences or limited and dated experiences upon which to draw. Those who have served on world-class boards may have far higher standards than those who haven't, rendering the results incommensurable.

- **Perspective:** What does it mean when a board rates itself much higher on, for example, its contribution to strategy than the CEO does? Perhaps the CEO knows things the board doesn't and therefore discounts the value of their strategic advice. Maybe it means that the board isn't pushing hard enough to make sure it is fully informed in a particular area. Or could it be that the CEO simply doesn't recognize the quality of the board's advice? Such differences of assessment between boards and CEOs in many areas are common in board evaluations, but their meaning is often opaque.



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• **Transparency:** Another frequently observed disparity further complicates interpretation. Board members often give quite high marks on graded questions about various aspects of board performance, and on that evidence alone they would appear to be generally satisfied. But in confidential interviews, an astute listener will often detect some significant — though often diplomatically stated — criticisms. How should such conflicting evidence be weighed?

• **Temperament:** Further, individuals answer questions differently, depending on who is doing the asking. In the rarefied air of the board, populated by highly accomplished people who often have relationships outside the boardroom, directors habitually exercise extreme courtesy and consideration for their colleagues, being careful not to criticize them. If the lead director or the head of the nominating committee is conducting the interview — no matter how ironclad the guarantee of confidentiality — that wholly understandable reticence is likely to come into play, clouding the results.

• **Objectivity:** Interpretation is complicated not only by who is asking the questions but also by who is interpreting the answers. No matter how determined the interpreter is to be objective — whether it's an independent chairman, lead director, or head of the nominating committee — he or she will inevitably filter the results through their perspective as a participant on the board and, in the worst cases, their self-interest.

These problems can be largely circumvented through third-party consultants, provided they are experienced at conducting assessments and interpreting the results. They should be adept interviewers and bring both art and science to the job, being able to synthesize both quantitative and qualitative information. With no personal stake in the outcome, these practiced eyes can recognize the disparities in the data, call on experience to cut through the interpretive knots, and provide an accurate

characterization of the results.

Not in splendid isolation, however. At every stage, outside advisers should act with discretion and emotional intelligence and in concert with the board member responsible for the assessment, all in service of the board's effectiveness.

### **Do we have the courage to act?**

The mere process of conducting an evaluation has value — but the best boards are committed to taking action. Tough as it may be, holding up a mirror to the board and then identifying the best op-

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portunities for improvement and the challenges that must be fixed is today's best practice.

The specific areas to be addressed and the steps necessary to improve them will of course differ from board to board. However, boards are sometimes tempted to concentrate on micro-steps and fine-tuning processes — the mechanics of the agenda, time spent on topics, number of meetings, lead-time for the circulation of pre-meeting reading, and the like — at the expense of focusing on behavior change, habits and structure that are not serving the best interests of the board and the company. Adjusting processes can be highly effective, but if your board has high aspirations such fixes won't take you very far. We have found that boards accelerate evolution when they get three fundamental people issues right at three progressively deeper levels of the board.

*First*, the lead director (or independent chairman, if there is one) and the CEO must make sure that they maintain

a collaborative relationship that is based solely on the good of the company and its stakeholders. They must trust and respect each other, with the CEO valuing the lead director's independence and the lead director seeking to understand the CEO's point of view.

*Second*, as an intermediary between management and the independent directors, the lead director must maintain a similarly collaborative relationship with those independent directors. He or she must acknowledge the integrity and contributions of others, be unthreatened by disagreement, and be skilled at achieving alignment and closure through deep mutual engagement in the issues.

*Third*, many ills that afflict boards can be cured by making sure that the right people are chairing the principal committees of the board. Poorly performing board members heading key committees only multiply the negative consequences of their performance. However, removing or rotating them (or, in some cases, even gracefully exiting them from the board) must be handled with tact — through such mechanisms as term limits or as part of a wholesale reorganization of all committees.

Boards can work consciously and systematically on those three people issues — the relationship between the lead director and CEO, the relationship between the lead director and other independent directors, and having the right committee chairs — through comprehensive and regular board succession planning. That includes clear criteria for selection of the nonexecutive board leader, developing board members by rotating them through committee assignments, and integrating the succession process with the board evaluation process.

With high aspirations, unbiased interpretation of assessments, and the courage to act, boards can stay firmly on course in their journey toward improvement not just as individuals but as the highest-performing teams they can be. ■

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