

Board Evaluation: “Feed-Forward” Instead Of “Feedback”

by Paul Winum

Corporate board evaluation, now mandated in most economies, has proven contentious and flawed for many companies. Among the problems—evaluation measures the past performance of a board and its members, but offers too little intelligence on future improvements. What if board evaluation focused less on “feedback” and more on “feed forward”?

Since 2009, the New York Stock Exchange has required the boards of listed companies to conduct annual board performance evaluations. The corporate governance codes in Europe all stipulate that annual board evaluations be conducted. In the UK, the prescription is to use an outside facilitator for the process at least every third year.

In the first years of the NYSE requirement, many boards responded to the mandate with a rather cursory “check the box” process. This was motivated more by the compliance imperative than a desire to improve the board’s effectiveness. Often, it involved simply distributing a brief survey to all board members. The results were tabulated, and the boxes checked.

Best practices in governance today require a much more rigorous approach. In addition to a thorough evaluation of full board and committee effectiveness, individual director feedback should be part of a robust board assessment. However, a 2016 survey of 187 board directors conducted jointly by Stanford University’s Rock Center and The Miles Group revealed that only slightly more than half of boards actually delivered peer feedback. About one-third of the boards that did reported that those reviews were ineffective.

One of the chief reasons many boards forego individual director evaluations is that gathering and delivering feedback about director and board performance is a very sensitive process. Poorly done, it can damage the important collegial culture inside

the boardroom, and inject caution and distrust into directors’ relationships with each other.

However, most directors who serve on boards are highly responsible, conscientious business leaders who genuinely want to contribute value, and would want to know if they are not performing as expected. In fact, over 90 percent of the 620 directors who responded to a joint RHR International/NYSE Governance Services survey indicated that they would like feedback about their performance as a director. So, the question is, how can important information be delivered to directors in a constructive manner?

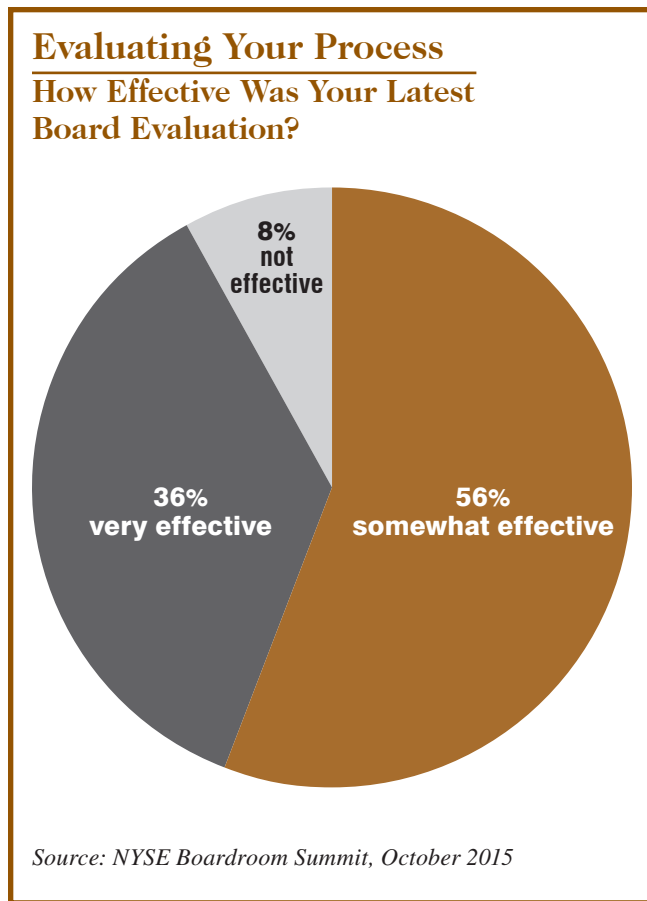
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One answer is *feed-forward*, not feedback. This distinction is more than semantic. The overarching intention of board and director evaluation is to continually enhance contributions in the future. Thus, a focus on what can be done differently going forward to maximize value is much more useful than a review of past performance.

While referencing former behavior may be helpful to highlight themes, the majority of boards and directors will benefit most from candid suggestions about how they can improve their contributions in the future. Drawing upon RHR’s experience in this field, here are a few recommendations for providing feed-forward.

□ *Be clear about the expected value proposition for the board and each director.* Directors come into their board service with a variety of implicit assumptions about how they think they should contribute. Some, motivated by the desire to be helpful, can cross the line

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from governance oversight into management. Others, wanting to provide a rigorous check on management, can adopt an adversarial posture. The board chair and/or lead director need to be explicit about the expected value proposition of the full board and of each director in the initial selection and onboarding process, as well as in director evaluations.

□ *Set up the board and director evaluations with a future orientation.* Whether the evaluations are conducted internally or via an outside facilitator, the board surveys and interviews (the best-practice combination) should focus on how the board, committees, and individual directors can function more effectively in the future rather than how they have functioned in the past.

Board chairs and lead directors should give feedback and suggestions for improvement to each director in an ongoing fashion throughout the year.

This is especially important in light of the fact that the RHR/NYSE study noted found that companies need different things from their boards as the operating landscape and company strategy evolve. Evaluations should focus on what governance needs will be in the coming year(s), and how directors can contribute to that future. Also, keep in mind that the best input is actionable, and any changing expectations should be clearly defined.

□ *Supplement the evaluation with ongoing input from the board chair or lead director.* An annual evaluation is an effective way for a board to gauge how it is functioning, and how it can improve its effectiveness going forward. In addition, regular, immediate input provides the best opportunity for behavior reinforcement or modification.

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In many cases, it may involve simply calling out what a director is doing well that adds value. In other cases, individual directors may benefit from timely course corrections about how they conduct themselves and how they can contribute more effectively in the future. This aspect of the role of chair and lead director is critically important, and takes a high level of interpersonal skill.

With the recommendations above in place, here is a suggested 10-step sequence for conducting a best practice board evaluation:

□ **Step 1: Design the evaluation process.** The board chair, lead director or chair of the nominating and governance committee (the board evaluation sponsor) designs the evaluation process. This may or may not involve an external advisor. The evaluation process should ideally include input from both directors and selected members of the management team who interface with the board. Also, the process should include a method for gathering input from each director about how each fellow director can maximize their contribution in the coming year.

□ **Step 2: Communicate the process.** The board evaluation sponsor communicates the process and

timing of the board evaluation in person at a board meeting. Communication of the process should emphasize the importance of full candor and convey the safeguards that will protect anonymity for all who provide input. Every director needs to be clear about how the results of the evaluation will be delivered.

□ **Step 3: Written survey.** A written survey with customized items about how the board is functioning and how it can operate more effectively in the future is developed and distributed. This survey allows data to be generated and the board to be compared to other boards on various dimensions of effectiveness. The survey should address the following areas:

- The board's value proposition. (What is the specific value that the company needs the board to deliver in the coming year?)
- Overall board effectiveness in delivering on that value proposition.
- How the board is contributing to the company's growth strategy.
- Composition. (Does the board have the expertise, perspectives and capabilities needed to deliver the value proposition?)
- Committee functioning.
- Oversight of risk.
- Leadership of the full board and each committee.
- Partnership between the board and CEO.
- Board renewal. (Address both continuing education of the board and director succession planning.)

□ **Step 4: Interviews.** After the surveys have been completed, individual, confidential interviews are conducted with each director and the members of the management team who interface with the board. The interviews can be conducted by the board chair, lead director, chair of the nominating and governance committee or by an experienced outside facilitator. Topics for discussion should mirror the topics in the survey.

□ **Step 5: Peer reviews.** In addition to getting input on how the board and its committees are functioning and can evolve, during the individual, confidential interviews, each director should be asked to provide input about every other director. Input about how

individual directors can enhance their contribution going forward can also be gathered from the selected members of the management team who work with directors in committee. Three simple questions to ask each person interviewed are:

- How has this director added value in the past year?
- What should this director continue, do more of, less of, or differently in the coming year to maximize his/her value contribution?
- Are there any other comments or suggestions you can offer about how this director can contribute going forward?

□ **Step 6: Compile survey results.** After all interviews are completed, a summary of survey results and findings from the interviews can be compiled. Also, a brief report for each director should be composed summarizing the input gathered in response to the three questions above.

□ **Step 7: Discuss the results.** Prior to the first board meeting after the evaluation, the results from the full board evaluation should be distributed to each board member. Then, at the board meeting, the results should be discussed, along with ideas for any changes to how the board needs to operate going forward. Recommendations and a board development action plan can be finalized over subsequent board and committee meetings.

□ **Step 8: Meet with each director.** After the full board results are presented and discussed, meetings with each director are scheduled. These are conducted by the either the board chair, lead director, chair of nominating and governance, or independent facilitator if one was used. No attributions of who said what should be conveyed to individual directors—just a summary of the themes and suggestions for the future.

□ **Step 9: Debrief the evaluation process.** Following the individual director meetings, a debrief of the whole board evaluation process should be done by the board sponsor or at the next full board meeting. Any suggestions to improve the process should be recorded and incorporated into the following year's evaluation process.

□ **Step 10: Implement and track recommendations.** Most importantly, the recommendations

from the board development action plan should be implemented and tracked at subsequent board meetings. Responsibility for implementation of individual director development should reside with each director. The board chair, lead director and chair of nominating and governance receives a copy of the development themes for each director, and provide on-going reinforcement throughout the year.

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Randall Larrimore serves as the chair of the nominating and governance committee on the boards of both Campbell Soup Company and Olin Corporation. He offers the following perspective about giving directors feed-forward input as part of evaluation:

“On both boards on which I currently serve I have led the effort to use director education, both committee and board evaluations, as well as individual director evaluations to do this. Quite frankly, the most valuable tool has been individual director evaluations where we try to identify how a director might use their skill sets to contribute more to board discussions.

Annually the governance committee, with input from the CEO, meets and discusses each director and how they could enhance their performance. Many times, the discussions revolve around being more outspoken and sharing their views. Sometimes it leads to suggestions that a director take less airtime so that others can speak.

A few times it has led to the conclusion that the skills the director has are no longer applicable to the company’s strategy. In all cases, either the lead director or non-executive chair of the board provides the confidential input to the individual director with subsequent follow-up as appropriate, often with assistance from the chair of the governance committee.

To maximize the value of this process, it is important to involve a third party on a periodic basis (say every third year) to conduct confidential interviews

with each director on how they think their fellow directors could add more value to the board and then provide direct, unfiltered feed-forward to the director. The third-party interviews almost always lead to more candid insights than a committee discussion, and typically is taken more seriously than collegial feedback from a fellow director.

While often discussions and interviews about individual directors bring up past performance—good and bad—the focus should be on how the director can modify his/her behavior to add more value to the board going forward.”

This feed-forward approach is also valuable to provide guidance to the board chair, committee chairs and lead director. These are very critical roles that shape the culture and dialogue in the boardroom, and require highly developed group facilitation skills.

Beginning in 2015, the senior partners at RHR interviewed directors who collectively served on more than 100 boards to discover the ingredients that contribute to a highly effective board of directors. One factor that was consistently cited was great board leadership. Summarizing the interview data, we identified eight essential roles that board leaders (chairs, lead directors and committee chairs) must play for maximum board value. Those eight roles are:

□ **The Orchestra Conductor.** The chair is the lead facilitator. They need not have all the answers, but they certainly ask the right questions and draw out the best thinking. They bring focus to the right issues at the right time with the right degree of intensity. They know where to poke and when to stop.

□ **The Galvanizer.** Board leadership attracts great talent and enlists them in a common pursuit of special goals and achievements. They make sure people are engaged and inspired. They make sure they are aligned on key priorities and know where they want to go. They broker consensus amidst dissension.

□ **The Culture Steward.** Great leadership creates an environment where all directors are fully engaged and involved. Every director gets “under the tent.” These leaders create a culture that promotes open discussion, the ability for everyone to be heard, service, and role clarity. They have genuine respect for people with different opinions.

□ **The Visionary.** Great board leaders always have their eyes and aspirations on the future, a future they set or a future they must react to. They set the framework within which other directors are going to develop strategy and direction for the business.

□ **The Operator.** Great leaders ensure the day-to-day matters are handled. They put in behind-the-scenes work to make sure directors are prepared for meetings. They set the agenda for board meetings. They have proper information flow and make sure people are properly educated on issues.

□ **The Talent Manager.** Great board leaders know the skills, experiences, and perspectives needed from other board members as well as from the senior team. They encourage growth on the part of the board members and get them to stretch their minds. They are engaged in evaluation and provide feed-forward (both individually and collectively).

□ **The Advisor.** Great board leaders are effective coaches; they listen, shape, and guide the CEO in very personal ways. These are personal relationships that must work for a board to be great. This person is a close partner and sounding board for CEOs and their team. They have the CEO's trust and respect.

□ **The Ambassador.** Great board leaders have strong connections in the external world, including customers, competitors, suppliers, regulators, politicians, and other key stakeholders. They can access resources from outside.

In conducting board evaluations, we have found that directors often have very concrete suggestions about how board leaders are managing each of these leadership roles. Gathering and delivering that input about how the board leaders can enhance their impact and influence has been welcomed and appreciated.

Just as a CEO may often get limited or highly filtered feedback from subordinates, a board leader may be deprived of performance input from his/her board colleagues. An outside facilitator can provide a safe, objective way for the board chair, lead director and committee chairs to get go-forward suggestions.

Operating a board of directors is an expensive proposition. If you combine the fees for director pay, travel expenses for board and committee meetings along with the time expended by management teams to prepare for and participate in board meetings, the cost runs into the millions of dollars each year. However, when you consider the combined experience, perspective, expertise and networks that a well-composed, aligned and high-functioning board provides, the return on investment can be invaluable.

Directors who commit to board service want to be part of a group that is respected, effective and appreciated by the range of stakeholders on whose behalf they work. A robust evaluation process that incorporates a feed-forward approach can be a powerful tool to help maximize the value that a board delivers to the company it is charged with governing. ■

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