



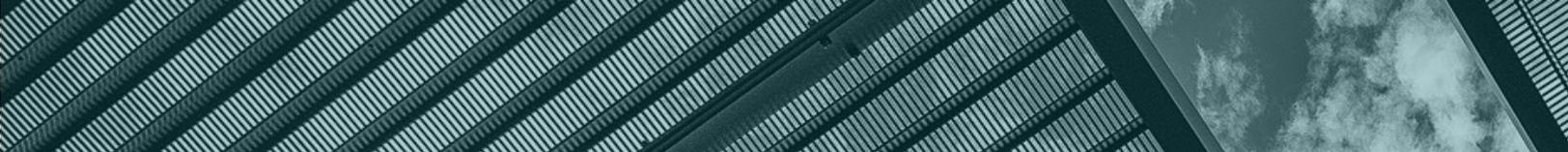
Board Performance: Evaluating Board Members to Drive Accountability, Leadership and Impact

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The regulatory, economic, and cultural climate of business grows more complex every year. As a consequence, organizations of every stripe experience demand for transparency and accountability from all sides. Stakeholders—whether analyzing a Fortune 100 business or receiving services from a local nonprofit—now look beyond market share, financial performance or program ratio as indicators of long-term sustainability. They expect evidence of effective leadership at all levels: and increasingly, their attention has turned to boards of directors. Reuters columnist and IE Business School professor Lucy P. Marcus puts it aptly: “Boards need to be composed of people with diverse skills that combine sector specific expertise with the ability to take in knowledge, synthesize it quickly, and make informed decisions, all in the full knowledge that as directors we will be held publicly accountable.”

Accountability took a leap forward when board performance evaluation was established as a regulatory requirement for NYSE-listed companies in 2003. Over the last decade, board evaluation has evolved into an accepted best practice across the spectrum of public, private, and nonprofit organizations. Surveys conducted by the National Association of Corporate Directors (NACD) show that in 2013, 87% of public companies and nearly 68% of private companies conducted full board evaluations. These boards assessed their collective performance against a set of benchmarked governance competencies, with the goal of assuring executives and stakeholders that as a group the board is governing well.



High-performance boards know that evaluation is more than a checklist exercise, and embrace the opportunity to move toward greater team effectiveness. As noted at the Harvard Law School Forum on Corporate Governance and Financial Regulation, “Board evaluation...should be a stimulating process for the board to acknowledge and reflect on its current framework, its strong and weak points, on opportunities to improve its functioning and performance. Boards will effectively address any limits or weaknesses only when they acknowledge what these are.” In these challenging high-stakes times of economic and political volatility, shareholder activism, and the 24-hour social media news cycle, effectiveness has never been more important. Yet there remains a significant sensitive spot in the process: the decision whether to evaluate the performance of individual board members or not.

Effectiveness as a group depends on the individual contribution of members, and all boards experience variability in director contribution—time allocated, preparation, degree of focus, functional expertise, alignment with mission, strategic contribution, relevance and substance of participation, interpersonal skill sets, and behavioral characteristics. As a consequence of lowered contribution, underperforming directors may have less credibility, influence, and ultimate positive impact on the organization than they desire; they may feel more need to fight for their voices to be heard. The resulting friction can undermine everyone’s effectiveness as the board spends precious time negotiating frustrating interactions and internal roadblocks, instead of engaging wholeheartedly—as accountable allies—in the critical discussions of strategic direction, risk management, financial oversight, talent development, and succession planning that are the heart of governance.

The issue of sub-optimal individual contribution is widely recognized, but not often discussed within the boardroom. It’s easy to understand why. A board is not simply a group that leads; it is a group of individual leaders whose work together depends on peer respect and collegiality. There is great power and brand value in effective alliance among a high-visibility group of achievers. Mutual respect and appreciation are essential to the group’s strength,

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credibility, and impact. To function effectively, the board must work as a high-performing alliance of peers.

This peer relationship can make it very difficult for directors to critique each other openly, or hold each other accountable, without creating conflict or tension. People accustomed to operating as colleagues can interpret feedback as an attempt to change the peer relationship to one that smacks of “management,” even when the goal is to optimize an individual’s contribution. Surfacing conflict without an appropriate support mechanism in place can often lead to nothing except more (and more open) conflict. As Kenneth Daly, President and CEO of NACD, pithily expressed in a roundtable on the topic, “Because of collegiality, you don’t want to go to somebody and say, ‘Look, you’re no longer productive. You’re a dud.’ So what

happens is that you evaluate the whole board. I don't know what good that does for figuring out problems for individuals."

Many boards rely on term limits to passively solve performance or behavioral challenges with individual members; and most directors get no feedback on how they resonate with their peers and the organization's operating executives. Equally problematic is that in the absence of a system to measure a director's leadership competencies (e.g, listening, influencing, relationship-building, and facilitation skills), the governance committee may use primarily subjective criteria to nominate committee chairs and executive leadership, only to find that a new leader ineffectively handles—or even actively multiplies—the problems that already contribute to less effective interactions and results.

The belief that collegiality and accountability cannot co-exist creates a pernicious dilemma for many boards that perpetuates itself to the detriment of the organization. It's a negative feedback cycle that, if entrenched, can slow the board's work, drive away high-performing directors, and adversely affect the company's ability to respond to crisis, strategic opportunities or fast-changing market conditions. We have only to look at examples such as Yahoo or HP in recent years to see the potentially catastrophic effects of a board disconnected from, or at war with, itself.

Building Accountability Culture

It is the board's responsibility to manage itself effectively, and to foster a culture of mutual accountability in which individual problems are addressed clearly, respectfully, and in a spirit of effecting positive change. As the NYSE's Boardmember.com notes, "while it's not always easy, or pretty, to be the best board, you must be willing to go the difficult route and evaluate yourself and your counterparts."

But even long-established boards often have no formal structure to assess individual director performance and then facilitate productive, transformative conversations about contribution value, influence, performance, or leadership skills. Work with public, private, and nonprofit boards to help them realize their performance potential has affirmed that introducing a formal, independently-administered, ongoing system of individual evaluation is the key to producing change and unlocking the maximum contribution from an underperforming director. It is also the platform from which to engage a systemic process by which individuals can be separated from the board in a way that is not "personal," is fair and does not violate the essential trust of the peer relationship.

A systematic, repeatable evaluation approach that embraces and encourages both collegiality and accountability will propel the board into an ongoing model producing the right conversations. We advocate that boards create an accountability structure—a data-driven assessment, governance and nominating structure that:

1. Clarifies and secures 100% buy-in to the specific competencies expected of board members generally, and of those board members who will be asked to lead.
2. Employs a rigorous, benchmarked measurement process at the individual level.
3. Provides assessment information to individual board members in a way that is discreet, respectful and dignified, and gives them the best opportunity to internalize the feedback and evolve their contribution.

This is the right conversation: transparent, tactful communication that constructively surfaces, discusses, and addresses all necessary matters and nuances, incorporating the best practices of executive coaching and organizational leadership in its delivery.

4. Identifies the most effective candidates for leadership nomination—leaders who embody and perpetuate the competencies that make the board the highly effective alliance of peers that every organization needs and deserves.

Deployed as an ongoing system, this assessment and accountability structure promotes effective governance, reinforces the peer team relationship, and provides longitudinal data that allows boards to develop a sound leadership foundation. It aligns the board around agreed-upon contribution standards and behaviors and creates a positive feedback system that supports high performance.

Owens Corning CEO Michael Thaman, speaking of creating an accountability culture, observed that “accountability only exists in a context. The real question is, ‘What are we trying to accomplish and what’s getting in our way of accomplishing that?’ and, ‘Are we willing to make the changes in the way we interact, make decisions, and allocate resources to get that done?’ Getting people to be accountable to a thoughtful objective is the key. People want to win.”

On a high-performance board, every member contributes fully, achieves maximum impact, and wields maximum influence. There is credibility and trust among directors, executives, and stakeholders. Each director is supported in finding his or her path to top performance in service of the organization, potentially including taking on greater leadership of the board. The organization and its stakeholders get the best from the board, and board members gain the richest and most rewarding experience of contribution. The right conversations happen—discreet, transparent, timely, impactful. Everyone wins.

Competency Criteria: Path to the Right Conversation

It’s a fundamental of good business that people contribute most effectively when they operate under a clearly-defined set of expectations. The core of any effective board accountability structure is a meaningful set of measurable competency criteria. However, there are different roles within the board, which argues for a tiered approach in setting competency expectations (Figure 1):

1.A standard set of expectations for all board members (the “price of entry” to board contribution).

2.Additional competencies for committee leadership.

3.Additional competencies for overall board leadership.

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Figure 1:
Organization Governance Competency Structure



Tiered criteria foster accountability culture in both short-term and long-term ways. The organization receives a snapshot of the board’s aggregate competency that identifies individual members’ areas of potential for improved contribution; when followed by the right conversations with leadership and individual directors, this information can have an immediate impact on the board’s dialogue and results. Because a tiered criteria survey measures all board members against all three competency levels, regardless of the member’s current role, the data allows the governance committee to identify potential upcoming leaders and begin thinking long term about development, succession and nomination. The system is not merely a mechanism for negotiating individual accountability: it is a foundational element of a self-sustaining culture whose leaders continuously model the characteristics that the board has determined are its own best practices for accomplishing its work.

There is no question that properly delivered feedback strengthens leadership performance. Scott Weiss, a partner at venture capital firm Andreessen Horowitz, said of his days as a CEO that in his relationship with his board, “it became clear that transparency and the

ability to provide honest feedback were paramount. I learned this through receiving instant and honest feedback following every board meeting (a healthy board practice). When this was coupled with annual 360 performance evaluations, I always knew where I stood. The feedback was crucial for my growth.”

Given a credible assessment system and agreed-upon measures, board members are equally open to this kind of feedback. They want to know how they resonate with peers and with the executive team, how they can contribute more effectively and achieve more impact. In one such evaluation recently conducted, we fed-back to an individual director that their questioning style was perceived as “grilling” by some executive team members, who interpreted it as a signal that the director didn’t trust their experience and talent. The director was surprised, and grateful to have data to make a positive change. Within one or two subsequent meetings, the board member internalized the feedback and adjusted the interaction style in a way that increased their effectiveness and influence with the organization’s board and executives. A simple change, but one that could only be made with discreetly-delivered feedback.

Director Evaluation Process

The key success differentials to avoid peer conflict around feedback are that the feedback is kept anonymous, and thus is easier to depersonalize; and that someone skilled in facilitating development planning and positive behavioral change delivers the information—a coaching approach, in effect. Often, a third party is the most effective choice (last year 14.9% of public companies and 11.1% of private companies conducting some level of board evaluation used third-party services). An NACD Blue Ribbon Commission report notes that “third-party board evaluations may help make the evaluation process easier and more effective. Evaluation comments tend to be more candid and instructive when independent outside consultants are used. This way, board members may avoid potential social drawbacks but still retain evaluation effectiveness.” When a third party works with the board to execute an accountability-based evaluation process, it becomes easier to surface meaningful data on performance and influence, and then facilitate the right conversations that lead to better director contribution, leadership nominating, long-term strategic development and board health.

Whether administered by the governance committee or a third party, a credible process for evaluating accountability and acting on the information is comprised of the following steps:

1. **Discover.** No organization can rely on a one-size-fits-all approach. Use a benchmarked set of board member governance competencies as the starting point to identify the appropriate criteria for the organization at all three tiers of evaluation. These benchmarks form the basis to interview the sponsoring group (board leadership, governance and nomination committee chairs, and the CEO) and identify their key observations of board performance, strategic goals, organizational and board culture, language, specific organization and industry operating environment, and other factors. Dig deep in these interviews until the evaluation criteria are clear and specific. The goal is that competency expectations align accepted best practices in corporate governance with the board’s specific culture and goals. The right conversation can only occur if the right data points are gathered. The governance committee, or some other subset representing governance, nominating and development interests, typically oversees this process and approves the competency construct to be applied.

2. **Design.** Use the established criteria to design a survey instrument that includes opportunities for quantitative and qualitative feedback. Numbers are important, but they never tell the whole story: nuances of perception emerge in comments, and often speak to deeper patterns or issues, and help when developing solutions.

3. **Deploy.** Administer the survey using current secure survey technology, making sure to solicit input from directors, the CEO, the CEO’s direct reports, and other relevant stakeholders. Data collection may also include in-person interviews to gather qualitative information.

4. **Share Feedback.** Conduct one-on-one confidential conversation sessions with individual directors to discreetly and respectfully share their assessment

information. Keep the feedback sources anonymous, and focus on the specific competency criteria. Work with the director to identify key areas in which they may wish to make behavior adjustments, and help them develop a specific plan to enhance their credibility, influence, and impact with their peers. This includes helping them identify and improve on their weaknesses, as well as pinpointing the key levers or strengths they can capitalize on to make their desired changes.

This stage is particularly well suited to third-party facilitation because it is precisely the conversation that boards desire but fear the most. It's the linchpin of change in individual contribution and ultimate board effectiveness. As such, it is crucial to bring the best practices of executive coaching to bear in order to effect the right conversation.

bench. A table of each director's score by respondent group differentiates how the director resonates with their peers and with executive leadership (Figure 2). A leadership readiness ranking positioning each director (with consideration to both quantitative and qualitative input) helps to identify specific leadership development or experiential needs (Figure 3). Ultimately, a leadership readiness 9-box analysis is created to visually assist the board in long-term planning to focus on specific individuals' development (Figure 4).

6. Develop. By conducting regular evaluations, boards collect longitudinal data about each individual's year-to-year changes. This gives board leadership the opportunity to review plans for advancing members' effectiveness and realigning their roles over their tenure to leverage their contributions at ever-higher levels. The

Figure 2:

Readiness: Board Member Leadership Readiness Factors: How each Member scored with Peers and Executive team, and how written comments factored in. (All members)

Data Source	Leader 1	Leader 2	Leader 3	Leader 4	Leader 5	Leader 6	Leader 7	Leader 8	Leader 9
Peer Assessment	4.57	4.62	4.52	4.45	4.40	4.43	4.13	3.92	3.88
Executive Team Assessment	4.78	4.34	4.80	4.39	4.11	4.54	4.51	4.10	3.77
Comment Analysis	5.00	5.00	4.50	3.50	3.50	3.00	3.00	3.50	5.00
Readiness Ranking	4.78	4.65	4.61	4.11	4.00	3.99	3.88	3.84	4.22

Ready In Line Develop

5. Report. Share initial findings in a private session with board leadership and the governance committee. We recommend a combination of analyses to create a comprehensive overview of the board's current situation as well as to prepare the governance committee for decisions about leadership readiness. A scored ranking of all directors within each tiered current governance

board also gathers meaningful data about leadership readiness, and leadership gaps, that allow the governance and nominating committees to function on the basis of facts, data, peer and other stakeholder input that is non-confrontational and dignified; thus the board can develop potential leaders in a more deliberate and systematic way.

The board can incorporate director development and board leadership succession planning into their annual process: after the yearly feedback session, directors complete and submit a formal development plan to the governance committee. Board chairs, vice chairs or governance committee chairs then schedule annual or semi-annual conversations with each director to discuss progress. If advancement is not the best path forward, and a member’s contribution has been sub-par, the board has an objective mechanism on which to base the difficult decision of separation, typically at the end of a director’s current term.

Ready In Line Develop

Figure 4:
Ranked Board Member Readiness (All Members)

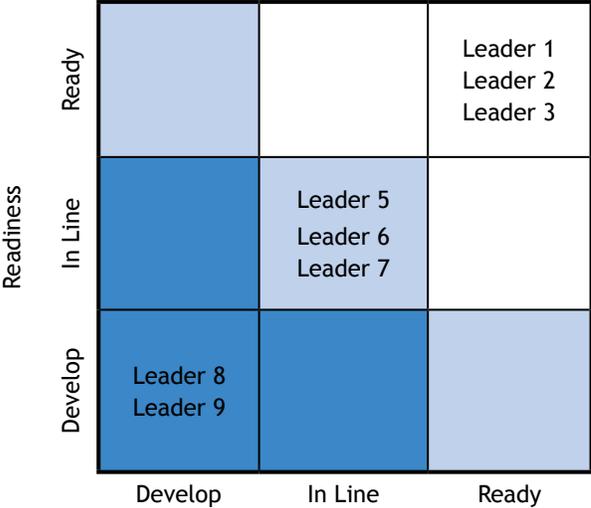


Figure 3:

Survey Results: Core Leadership Competencies (All members)

Data Source	Leader 1	Leader 2	Leader 3	Leader 4	Leader 5	Leader 6	Leader 7	Leader 8	Leader 9
Group Participation	4.69	4.67	4.57	4.49	4.07	4.24	4.38	3.90	3.97
Interpersonal Skills	4.76	4.74	4.62	4.47	4.25	4.36	4.33	3.94	3.82
Strategic Oversight and Performance Evaluation	4.64	4.63	4.68	4.32	4.49	4.13	4.16	3.97	3.81
Critical Thinking and Decision Making	4.64	4.61	4.72	4.41	4.25	4.31	4.32	4.19	3.88
Governance Excellence	4.82	4.78	4.75	4.58	4.55	4.41	4.00	4.11	3.96
Industry and Business Knowledge	4.57	4.61	4.77	4.31	4.48	4.29	4.17	4.09	3.79

Survey Results: Specific Leadership Competencies Committee Chairs (All members)

Data Source	Leader 1	Leader 2	Leader 3	Leader 4	Leader 5	Leader 6	Leader 7	Leader 8	Leader 9
Collaboration and Facilitation	4.70	4.66	4.41	4.48	4.00	4.25	4.39	3.91	3.95

Survey Results: Core Leadership Competencies Chair and Vice Chair (All members)

Data Source	Leader 1	Leader 2	Leader 3	Leader 4	Leader 5	Leader 6	Leader 7	Leader 8	Leader 9
Influence, Inspiration, and Mentoring	4.62	4.62	4.58	4.38	4.22	4.08	4.13	3.79	3.49
Overall Leadership Ranking	4.68	4.67	4.64	4.43	4.29	4.26	4.24	3.99	3.83

Individual Accountability Drives Improved Board Governance

An accountability structure built around a data-based evaluation process delivers powerful results. It fosters the right conversations that drive the specific individual changes needed to help the board become a more effective governance team.

The Bank of Montreal discovered this in 1996 when they became the first major North American institution to evaluate individual board members, using a third-party consultant to lead the process. A former director who participated in that evaluation notes that it “had an immediate and positive impact behaviorally...we turned more into a coordinated team rather than a random collection of A-type personalities.”

Group Health Cooperative in Seattle (now Kaiser Permanente), a national managed-care leader that coordinates care and coverage for more than 600,000 members in the Pacific Northwest, has embraced an ongoing system that annually evaluates board governance practices as well as each trustee’s influence, impact, and leadership readiness. “We noticed positive changes in the way some trustees were showing up almost immediately following getting their feedback,” says Porsche Everson, Board Chair of Group Health. “Now, two years hence, we have repeated the process and noticed some measured positive changes not only in behavior, but also in individual performance.” Board members report that the individual feedback conversations have been among the most impactful of efforts put toward enhancing their personal contributions and professional development as trustees. GHC actively utilizes the data and reporting in leadership selections and nominating decisions.

Through the right conversations in the context of an accountability-based evaluation process, board members gain the data they need to identify specific competency concerns in a way that opens the door to meaningful change. This gives the board the opportunity to become a better functioning and more effective peer group— strong directors working together under an aligned set of

competency standards that drive boardroom behavior, committee work, and governance decisions to be focused, aligned, transparent, and above all, effective. The board evolves constantly and confidently toward achieving and sustaining high performance. Today’s organizations can afford nothing less.



About the Author

Mike Humphries is President of Waldron, a Seattle-based consulting partner strategic leaders choose to help attract, engage, and inspire effective leaders. He actively advises numerous boards on performance and governance effectiveness, board and CEO evaluation processes.

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