MAXIMIZING BOARD AND DIRECTOR EFFECTIVENESS

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Clearly, the board of directors in any company has an increasingly important role to play in providing strategic direction (hence the term "director") and in representing shareholder interests.* According to the noted corporate governance expert Jay Lorsch in "THE BOARD AS AGENT OF CHANGE";

"I believe the board of directors bears a unique responsibility and must play a unique role in trying to ensure that the company's management and its culture are able to anticipate and adapt to change. But if we review the recent examples of troubled corporations, we can see that the overriding problem in almost all cases was that the board was unable to recognize that they and management were failing to adapt to change in time to prevent the company from experiencing a substantial decline in competitive position and financial performance".

BUSINESS WEEK and FORTUNE now publish special issues from time to time focusing on the changing role of the board, while leading publications such as HARVARD BUSINESS REVIEW feature several articles each year on corporate governance issues. Unquestionably, directors are being held to increasingly higher standards of performance and accountability.

In our extensive work with bank and holding company boards of directors (we conduct two dozen or more board retreats annually), we find that the vast majority of directors take their role very seriously and want to make a valuable contribution. At the same time, they tell us that they receive little or no consistent, quality feedback regarding the job they are doing.

Based on our experience, we believe not only that directors should be held accountable for their performance, but that, for the most part, they would welcome a comprehensive accountability-driven feedback process. Most directors, after all, want to maximize their effectiveness.

As far back as 1996, BUSINESS WEEK, in "The Best and Worst Boards," reported:

"Slowly but surely, a quiet revolution is going on in America's boardrooms. The directors around the conference table are waking up. They're taking the job more seriously. They're becoming more active in reshaping the board and its oversight capabilities. They're getting involved in corporate strategy and management succession. They're objectively evaluating the CEO's performance – and their own."

The following year, the National Association of Corporate Directors, through a blue ribbon commission under the leadership of the highly respected Ira Millstein, published a comprehensive report on Director Professionalism. Among the key recommendations was that boards regularly evaluate the performance of the CEO, the board as a whole, and each individual director.

* See THE BANK DIRECTOR'S ROLE IN THE STRATEGIC PLANNING PROCESS by Cass Bettinger; published by The Southwestern Graduate School of Business

Specifically, the commission states:

"There are three separate aspects to effective evaluation at the board level, each of which constitutes a critical component of board professionalism and effectiveness: CEO evaluation, board evaluation and individual director evaluation. All three of these evaluations should be assessed vis-à-vis pre-established criteria to provide the CEO, the board as a whole, and each director with critical information pertaining to their collective and individual performance and areas that can be improved."

Coincidentally, that same year a survey commissioned by Russell Reynolds Associates discovered that corporate governance, i.e., the extent to which directors fulfill their responsibilities, had become a key evaluation criterion for institutional investors.

The very next year, in a **HARVARD BUSINESS REVIEW** article ("Appraising Boardroom Performance," January-February), the point is driven home even more strongly:

"Rare is the company that does not periodically review the performance of its key contributors – whether they be individuals, work teams, business units, or senior managers. But one contributor usually escapes such review and that one is arguably the single most important – the corporate board.

If done correctly, evaluations create a way for the board and the CEO to hold each other accountable to clearly defined performance expectations while avoiding the dangers of getting the board involved in day-to-day management. Evaluations can also improve the operations of the board, clarify the respective roles of the board and CEO, and ensure that both consistently focus on their responsibilities. Perhaps the clearest and most consistent benefit we've observed in those companies that have adopted board appraisals is a commitment by directors and CEO to devote more time and attention to long-term strategy – and that by itself is an outcome significant enough to justify their implementation."

In addition to the above, we believe that board and director evaluations make sense if for no other reason than the fact that directors themselves need to know how well they are fulfilling their responsibilities. It is the only way they can maximize their contribution and know whether they are doing a good job.

The truth is that no one can be held truly accountable without some reliable form of evaluation. Evaluation, in turn, can only be fair and meaningful when performance accountabilities and expectations have been clearly defined, communicated, and agreed upon. This is the foundation upon which all evaluation and accountability are based.

Without question, the best way to ensure that the right foundation exists is with a well-thought-out Director Job or Position Description. In the many director retreats and workshops we conduct, we typically ask whether a) directors have written job descriptions which clearly spell out their accountabilities, and b), if not, would they find such job descriptions to be of value. The answer to the first question is overwhelmingly negative and to the second question overwhelmingly positive. While the implementation of an effective board and/or director evaluation process is not dependent on written job descriptions, we believe that they can enhance significantly the overall value of such a process

In response to requests from clients, ***Cass Bettinger & Associates*** has developed two specific approaches to director evaluation.

The first, **Maximizing Board Effectiveness**, asks each director to evaluate the board as a whole using an evaluation instrument containing 47 statements, each addressing a specific board responsibility. Two open-ended questions are also included. As with all evaluation and survey instruments from ***Cass Bettinger & Associates***, the actual statements can be customized to meet the client's needs and priorities.

The completed evaluations are sent directly by each director electronically to ***Cass Bettinger & Associates*** for tabulation. Copies of the evaluation results are then prepared for each director and sent to the designated recipient (typically the Chairman of the Board).

The second tool, **Maximizing Director Effectiveness**, asks each director to complete a self evaluation – and to then evaluate each fellow director- using an evaluation instrument with 48 statements, each of which relates to a specific director behavior. Two open-ended questions are included and this instrument, too, can be customized for the individual client.

All completed evaluations are returned directly to ***Cass Bettinger & Associates*** for tabulation. The completed evaluation results are then returned to each individual director, thus ensuring confidentiality. Most clients also request that a second copy of each evaluation be sent to the board chairman.

Maximizing Board Effectiveness provides invaluable feedback which allows a board to identify and prioritize specific opportunities to become more effective.

Maximizing Director Effectiveness, the approach preferred by most clients and corporate governance experts, provides each director with a self score and the average score from his/her fellow directors, as well as a ranking (1 for highest; 48 for lowest) for each statement. Also included is a gap score (the difference between the self-score and the average score from fellow directors) for each statement. Feedback from the two open-ended statements is also included.

The quality, comprehensiveness, and confidential nature of the feedback is extremely valuable in enabling each director to identify perceived strengths as well as any specific developmental opportunities. In this way, each director, every year or every other year, will not only know exactly how he or she is performing but will also be able to focus on specific opportunities to become even more effective.

Cass Bettinger & Associates works exclusively with commercial banks and bank holding companies throughout the United States.

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