Board Self-Assessment

Organizations, corporations, and institutions alike can benefit from an effective, independent board. Directors and trustees are elected to oversee the activities of executive leadership and represent the interests of various stakeholders. While industry and regulatory requirements will naturally influence specific board responsibilities, many principles of good governance transcend institution, geography, sector, and legal form.

Board effectiveness is a function of the skills, experience, and judgment of the board members themselves. However, there are five "disrupters" that often impact board performance: lack of role clarity, poor process management, lack of alignment and agreement on strategy, poor team dynamics, and board composition.[1] Formal self-assessments enable boards to solicit and discuss feedback, benchmark performance, and institute changes that will enhance the effectiveness of boards and their members.

We have developed this short paper to highlight the value of a robust board self-assessment program, which may include the use of third parties to design, facilitate, and ensure candid discussion as part of an effective assessment process.

"Good enough" is not good enough

Like insurance, the value of a great board may not be apparent until there is a crisis. An experienced corporate director told us, "The real test is when something goes wrong. Did it come out of left field, or was it a failure in [the board's] core responsibilities? At the time when a board truly needs to help, [an average board] may not have the judgment or willingness to do so."

Self-assessment is a catalyst for improved board performance

> *"In all affairs it's a healthy thing now and then to hang a question mark on the things you have long taken for granted." –Bertrand Russell*

In recent years, regulators and stock exchanges have required most boards to carry out an annual self-assessment. Public companies must comply with rules imposed by the New York Stock Exchange[2] or NASDAQ, while the Securities and Exchange Commission sets requirements for mutual funds.[3] These mandates generally lack specificity, and a board is

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[1] Ana Dutra, "More Effective Board of Directors," *HBR Blog Network*, November 5, 2012.
[2] New York Stock Exchange Listed Company Manual, Section 303A.09.
[3] *Code of Federal Regulations,* Investment Company Act of 1940, title 17, sec. 270.0–1(a)(7)(v).

only required to undertake the bare minimum required to fulfill the compliance obligation. However, boards should "not approach their board's self-assessment as just another 'check the box' exercise, but instead should take the opportunity to ask difficult, thought provoking questions."[4]

Boards have leeway when choosing the specific issues upon which to be assessed, and advisors have developed many checklists and other tools to guide the process.

Ultimately, the success of an effective self-assessment process is not about the right checklist or questionnaire: "The real value of a board assessment lies in engaging board members in thinking about and discussing how the board does its work, and finding ways to make the board even more effective."[5]

Data collection mechanisms are merely the starting point for an important series of conversations. After all, "Understanding the areas a board needs to strengthen is relatively straightforward; actually improving performance is quite challenging."[6]

Many factors impede a rigorous board self-assessment

Board evaluation may appear straightforward, but as one corporate director asserted, "It's a process that can fail at its core purpose unless somebody is willing to [take it seriously]. There can be a Lake Wobegon effect."[7]

Emphasis on process over performance

As one corporate leader observed,

> "From experience, most boards (and committees) perform self-assessments largely based on how they rank themselves against their stated mandates. Seldom, if ever will there be a failing grade. Frankly, it is not particularly difficult for a board to score itself well, because most boards have figured out the governance stuff quite well … [However], boards seldom examine the most critical question – how has the [institution] performed for [stakeholders]? For me, that ought to be the starting point for every board assessment."

Moreover, boards designing a "perfect" survey instrument should recognize that:

> "tools in isolation are insufficient to help boards make difficult transitions in their own organizations. Organizations can get too wrapped up in the tool (which is relatively easy to execute) and neglect the real dialogue (which is quite hard) … What is most

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[4] Mutual Fund Directors Forum, *Report of the Mutual Fund Directors Forum, Practice Guidance for Directors on Board Self-Assessments*, January 2008, 1.

[5] Beverly Behan, "Board Assessment: Designing the Process," *The Corporate Board*, November/December 2004, 1.

[6] The Bridgespan Group, "Becoming a More Effective Nonprofit Board," 2009, 1.

[7] Coined by Garrison Keillor, this effect refers to a fictional town "where all the women are strong, all the men are good looking, and all the children are above average."

valuable is not the particular tool or method that a board employs, but the dialogue among the board and the organization's leadership about where and how the board should support the organization's mission and plan."[8]

Susceptibility to groupthink

Many boards have a natural tendency to avoid difficult discussions in the name of group cohesiveness, also known as groupthink: "a dysfunctional pattern of group processes, frequently found within a tightly knit group, who are impervious to external influences and who converge on a pattern of behaviour convinced of their own infallibility."[9]

An occupational psychologist noted that "The expression of dissent is often suppressed by a group desire for conformity."[10] Indeed, as one director said, "The trouble with consensus is it an average. There are often influential and more grounded board members who may have a more critical commentary around board performance. Their opinions, while right, can be dampened by the assessment of others (all having an interest in demonstrating the board is performing well)."

Self-interest

Directors who question their ability to contribute may also experience trepidation: "There is now a belief, expressed by some Chairmen and CEOs, that those who were board members during the good times may not be effective at leading the business in times of adversity and that new board members, with different perspectives and skills, should now replace them."[11]

Independent intermediaries can bring significant value

> "If you're at the top of the chain, sometimes people won't give you honest feedback because they're afraid. In this case, disguise yourself, or get feedback from other sources." –Steve Jobs

The self-assessment is often developed and executed by the board chair and/or committee chairs. However, many boards find that independent advisors "can provide a helpful first step in moving chairmen and boards outside their comfort zones and in identifying opportunities for strengthening corporate governance and overall board performance."[12]

While outside counsel or other regular advisors should be able to offer objective insight, human nature interferes with open dialogue. After all, as one expert noted, "It is hard [for counsel] to go to their client and say 'You're not doing your job well.'"

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[8] The Bridgespan Group, "Becoming a More Effective Nonprofit Board," 4–5.

[9] The Bridgespan Group, 2.

[10] Mike Rugg-Gunn, *The Psychology of Effective Board Decision-Making*, Human Asset Development International, 2010, 1.

[11] Ibid., 1.

[12] Russell Reynolds, "What Makes for a High-Performing Board?" *In Touch With the Board*, 2012, 5.

One corporate director described the value of a neutral party to "cut the through the clutter of groupthink … draw out the more realistic and objective commentary from directors, and not [dismiss] the minority view because of 'consensus.'"

A neutral party offers several other important benefits:

- They can ensure that participants view the process as explicit, rational and fair [13]
- Independent status ensures confidentiality and encourages greater candor
- As an "honest broker," they can surface difficult but important questions
- External support to ensure "next steps" are followed through

An effective third party must quickly recognize the technical, political, and cultural issues facing the board. At the same time, the neutral party should demonstrate independence, courage, and creativity, along with a nuanced appreciation for the art of leadership.

A robust process requires thoughtful design and execution

In working with a neutral party to design their self-assessment process, boards should consider the architect's credo, "form follows function." What does the board hope to achieve, and how can the self-assessment help the board realize those aspirations?

Even though all assessments serve a common purpose, we advocate a bespoke approach that takes into account the unique challenges and characteristics of the board.

With greater clarity of purpose, a board and its advisors can make informed decisions about several fundamental design choices:

Why?	What are the objectives of the self-assessment? Do any known issues warrant particular emphasis?
What?	Will the board assessment also include committee or individual director performance assessment?
Who?	Which directors are responsible for shaping the process? Will the board solicit input from other stakeholders (e.g., management, advisors)?
How?	What tools will be most effective (e.g., written surveys, one-on-one interviews, group discussion)? What data will be captured, retained, and disseminated? What confidentiality principles will ensure candor?
Where?	Which activities should take place in-person vs. by phone/email?
When?	How often should the self-assessment be conducted? What time of year?

From start to finish, a robust self-assessment process may take three to six months. We believe most board self-assessments can be built upon the basic steps outlined on page 6.

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[13] For more on the value of process satisfaction in consensus, see *The Primes* by Chris McGoff, 105–106.

Why SkyBridge Associates?

Before founding SkyBridge Associates in April 2013, Jamie Millar was a partner at Tapestry Networks, where he worked with over 150 directors from large- and mid-cap public companies to improve board leadership and enhance trust in capital markets.

From 2004 to 2013, Jamie built and led Tapestry's regional audit committee program, consisting of eight invitation-only networks across the US and Canada. Through more than 100 group meetings and countless private conversations with individual directors, Jamie developed a nuanced perspective on board, committee, and individual director effectiveness.

SkyBridge mobilizes leaders by convening candid, trust-based discussions where they can learn from and collaborate with other leaders from both inside and outside their organization. We believe that big challenges can only be addressed successfully by asking the right questions, and we are passionate about helping individuals and groups identify and discuss the questions that will positively influence their organizations, their industries, and their careers. For more information, visit www.skybridgeassoc.com.

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Board Self-Assessment:
Basic Steps

Meet with key board members

Initial meetings between SkyBridge Associates ("SBA") and key board members to discuss objectives, timelines, and expectations, and to agree potential issues to be explored with individual board members.

Assessment design

SBA speaks privately in person or by phone with individual board members to solicit insights, and to discuss process and content options for the assessment.

Review process with board

SBA syndicates surveys, discussion guides, or other data collection tools, and agrees methodology with board and/or committee leaders.

Data and feedback collection

SBA gathers and analyzes data as agreed. SBA may provide summary information to the board, along with questions for discussion or further consideration.

Report back to the board

SBA shares findings at board and/or committee meeting. SBA leads open, pragmatic discussion(s) addressing the relationship between performance, governance structures, and day-to-day board function.

Report back to individual members

If individual feedback has been solicited, SBA speaks privately with each board member. In some cases, individual board members may request ongoing coaching or other support from SBA.

Next steps

Board agrees and executes next steps, which should include a mechanism to hold the board and/or its committees accountable for achieving agreed outcomes.

Follow-up

Several months later, SBA contacts selected board members to solicit feedback, track progress, and surface opportunities to refine processes or tools in the future.