Measure for Measure

How to Conduct a Successful Self-Assessment

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It may seem obvious that self evaluation by a board of directors can improve company performance, but the practice has not been visible in most public companies, and it is only now that the practice is mandated by regulations for the largest companies.

Good governance, of course, should start (rather than finish) at the board level, but the boards of such large companies have not yet reported their first experience with self-assessment. New York Stock Exchange-listed companies are now required to report on annual board self-assessment while the boards of registered mutual funds have been required to report on their self-assessed conduct as of January 16, 2005. Smaller and not-for-profit companies should consider following suit.

Getting Started

It is never too early to start the process, measure the benefits, and avoid risks in a formal self-assessment. The evaluation process might begin with the board and CEO working together to produce a statement of their relative rolls. This can strengthen the practice (frequently already in place) of the board's annual evaluation of the CEO and the management team, and should highlight the difference in the role of the CEO and the board chairman. The process could mature with self-assessment by individual board members and perhaps by peer evaluation delivered orally through the chairman or by a professional.

Measuring Progress

The National Association of Corporate Directors (NACD) suggests that the evaluation process start with the board adopting a mission statement, such as: To be a strategic asset of the company measured by the contribution we make collectively and individually—to the long-term success of the enterprise.

Then, during self assessment, ask:

• What are our current strengths and weaknesses?

• What can we do to clarify the respective rolls of management, the board committees and the full board?

• How can we guard against providing too much management or too little guidance and monitoring?

• What is the appropriate level of director familiarity and/or competence with business, finance, legal industry and company activities? What can we do for improvement?

• What are the company's risks, how do we assess them and how do we measure the effectiveness of our responses?

• What is the optimum composition/size for our board; how do we use committees; how frequently should we meet; and how much should directors be paid?

• What resources should be available to us to do our work?

Many written self-assessment forms circulate in publications from NACD, in lawyers' offices and on Web sites.
Results of the NACD Blue Ribbon Commission on Board Evaluation: Improving Director Effectiveness, by NACD and The Center for Board Leadership (2004) is an excellent starting point. NACD in Utah can be reached at www.nacdut.org.

But, as described below, care should be given to the collection, recording or archiving of written responses on the chosen form.

Considering Risks

Under-performing boards can be exposed to public criticism or to legal challenge. But the board should also remember the motto of the practicing physician: "First seek to do no harm." The SEC did not mandate that the self-assessment process must be in writing and written results of this process would be discoverable in litigation. Experienced lawyers are accustomed to providing recommended procedures to minimize these risks. For example, some corporate attorneys recommend that answers to the self-assessment questions be delivered by hand and that the attorneys summarize and homogenize the answers, which also can be shared orally with the board, rather than in writing. Readers are encouraged to seek competent legal advice before beginning this process.

Some feedback can be brutally honest and this process may pose the risk of loss of desirable congeniality. But the risk should be manageable with focus on the process and the desired outcome, with little need to personalize the process.

Assessing Benefits

The NACD publication contained this pithy justification: "[E]valuations can help directors measure how well they are meeting their duties of care and loyalty and their fiduciary responsibilities. Equally important, evaluation says to all concerned, 'We want to do better.'"

At a minimum, the board should find that self-assessment will:

• Clarify the role of the board, the chairman, the management team and the CEO.

• Focus on risk assessment and on long-term strategy and objectives.

• Enhance a culture of disciplined decision making and accountability.

• Provide for optimum and timely production of relevant board information.

• Establish an agreed standard of director commitment and performance.

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