

CORPORATE BOARD MEMBER®

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SPECIAL REPORT:
WHO'S AROUND THE
BOARDROOM TABLE?
OUR ANNUAL SURVEY

SURVIVAL STRATEGIST

GM AND MERCK BOARD MEMBER **PATRICIA RUSSO**
ON DIRECTORSHIP IN AN ERA OF DISRUPTION

SEVEN KEYS TO EFFECTIVE BOARD EVALUATIONS

By Rich Fields and Robert Leclerc

The annual board evaluation process has changed dramatically in recent years. Many companies are devoting more time and attention to the process, gathering feedback on the board, board committees and individual directors. Others are examining their assessment practices and considering a change.

Attention to evaluation practices is a natural outgrowth of increasing attention to board composition, refreshment and effectiveness. Passive investors like BlackRock, Vanguard and State Street Global Advisors have long considered oversight of these issues as their most important responsibility. The existence of a robust evaluation process is an important indicator that the board cares about its effectiveness and has taken steps to surface and resolve any areas of concern.

While shareholder interest in evaluations is important, board members and C-Suite executives also seek improvement. Some have seen disfunction on one of their boards and wished an evaluation process could address the issue. Some boards have an individual director performance issue. Directors tell us that even high-performing boards benefit from a process to reflect on their performance and consider ways to be even more effective.

In response to growing interest in evaluations, here are seven keys to effective evaluations public companies should consider:

1 INVEST IN INTERVIEWS

The traditional evaluation process relies on vanilla questionnaires with five-point ratings scales. This literal check-the-box approach provides data but no insight. What does it mean if board effectiveness moved from 4.5 to 4.3?

Open-form responses are a little better, but it is rare that these generate meaningful detail about what is and is not working in a boardroom.

One-on-one interviews allow board members to be candid and for skilled, conversational interviewers with highly refined EQ to ask follow-up questions that can help identify areas for board growth and development. Interviews are the cornerstone of an effective evaluation process.

2 HIRE AN EXPERT

In the last few years, there has been a dramatic uptick in the number of board evaluations facilitated by external experts. There are good reasons for this trend. People are more likely to share their true feelings with someone outside the company. A third-party can also help benchmark one board's activities against others.

Companies should do their homework when hiring a board facilitator, ensuring that they find someone with a deep understanding of boardroom dynamics and extensive experience interviewing directors.

3 MAXIMIZE PRIVILEGE PROTECTION

Directors and other interviewees are less likely to be candid if they are worried that someone else will read their words out-of-context in future litigation. A well-constructed evaluation process led by experienced counsel will maximize protection of evaluation materials from discovery under the attorney-client privilege, work product doctrine and/or self-evaluative privilege.

“GOOD GOVERNANCE STARTS WITH A GREAT BOARD OF DIRECTORS, AND WE LOOK FOR HIGH-FUNCTIONING, WELL-COMPOSED BOARDS WITH EFFECTIVE ONGOING EVALUATION PRACTICES.”

—Vanguard's Glenn Booraem

4 ENGAGE MANAGEMENT

One senior executive recently told us, “I’m not sure the board recognizes we see when they aren’t functioning effectively.” Executives who participate in board meetings have distinctive insight about the board; failing to capture that is a mistake.

In our experience, C-Suite executives are very supportive of robust evaluation processes, recognizing that a higher-performing board is a stronger asset for the company, its leaders and its shareholders.

The best evaluations are board-led but informed by the perspectives of management, particularly the CEO.

5 TAILOR TO YOUR NEEDS

Although there are some must-haves in any evaluation process, each evaluation should be built specifically for the current needs of the board and company. A bespoke approach provides an opportunity for each interviewee to share perspectives on the issues most important

to them, but also provides an opportunity to dive deeply into the most critical questions facing the board. One year, an evaluation might dive deeply into board refreshment initiatives; the next, it may focus on the board's onboarding efforts.

Beware someone offering a “standard” service. Board time is too valuable to buy an “off-the-shelf” product.

6 MAKE IT ACTIONABLE

A well-constructed evaluation that surfaces areas of strength and opportunities for growth is not enough. Failing to act does more harm than good. The evaluation should lead to concrete suggestions for board discussion. In turn, that discussion should lead to clear objectives.

Proof points from prior evaluation cycles are the best way to make future evaluations productive and to create a culture of continuous improvement.

7 GET CREDIT

Companies and their lawyers are often resistant to voluntary disclosure about board and governance activities. While caution and care are important, companies with robust evaluations are missing an opportunity to build credibility with their investors. Disclosing appropriate detail about the company's evaluation process is among the most compelling demonstrations of board effectiveness.

A fresh look at your board's evaluation practice may uncover opportunities to help the board and company achieve their full potential, simultaneously improving board, executive and shareholder perception of board quality.



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