

How can Boards rise above rote evaluation exercises to raise their performance?

Many describe evaluation as just another triumph of process over substance

One of the most popular advances in Board professionalism in recent years is the annual evaluation. Now regarded as a governance 'best practice', it equips a Board to test its own mettle and promote its self-discipline to outside skeptics.

Right from the outset, this was an innovation that any Board could implement. Now in widespread use, evaluation has played a major role in inspiring new heights of rigor within the boardroom, and in setting expectations for every Director, Committee, or Chair. It has also helped to send signals that some Directors need to step up, and others to step out.

Best of all, recurring evaluation exercises can push Boards to express what they mean by high performance – individually and collectively – and face up to how well they are doing. Yet many Directors report that the freshness and value of such insights is waning. They even view evaluation as just another checklist, another triumph of process over substance.

This decline in value is not fated – entropy is not destiny. The issues that separate the still-ardent fans of evaluation from their disenchanted peers are matters of practice and design, not principle. Better yet, by re-thinking and renewing what we analyze and how, we can harvest much greater rewards than many evaluations have yielded to date.

How can a Board extract new levels of meaning from its evaluations? First, it helps to be clear about what end we are pursuing. What future state do we hope to achieve? So, start by asking three, critical questions:

- 1. What do we mean by an exceptional Board?**

What is our benchmark for comparison? In our view, exceptional Boards exhibit human qualities or skills (examples appear later) unlikely to be found in Boards that are merely competent. Still, each Board must answer in its own context, i.e., *"what would exceptional look like, for a Board like ours?"*

- 2. Which critical priorities must our Board tackle in future? How must we prepare for that future?**

Board contributions must be grounded in where we intend to take the business, in what game-changing risks could upset our plans, and in how this Board can strengthen thinking and execution. This goes far beyond assessing how we did last year. *"In this age of volatility, are we ready to fight the next war?"*

- 3. What constraints hinder this Board's performance and how will we overcome or work within them?**

Boards face strong capacity limits such as: scarce time, a crowding-out of high priority work by lower value process, or a shortfall in expertise relevant to its work. *"In evaluating our performance, what is achievable? How can we expand our Board's potential, to permit higher performance in future?"*

Each Board's answers to these questions will evolve, to align with the strategic situation of the company. The answers will hinge on what kind of Board it aspires to be (as discussed below).

Oh and, as Steve Jobs would say, "One more thing". Even the best evaluation work goes for naught if Directors do not act to address the opportunities that they uncover. *"How well does our Board review its interim progress and take corrective action?"*

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In conducting an evaluation, Boards must define the kind of Board they seek to become. In our economy, a wide spectrum of Boards displays sharply differing purposes, cultures and outputs. It makes no sense to apply the same process or questions to them all. Some Boards see themselves as 'stewardship Boards', whose prime focus is to provide oversight and assurance to outside interests. Their goals: to select the right CEO, monitor risks and preserve shareholder

value. By contrast, Directors of a privately-held company often play the role of special consultants to its owner-managers. A Board's size and skills can also influence what it seeks to become. We call those with the highest aspirations 'Value-Creating' Boards. Their Directors expect to make a substantial difference to the future success of their companies. Each Board must be valued in light of its stated intent.

Do any yardsticks apply to all Boards?

Nearly all Boards share a generic set of deliverables against which to track their performance. Most select, compensate and appraise their CEO. Most approve company strategy. All account to shareholders for the integrity and accuracy of financial statements and the rigor of management controls. All public Boards attest to regulators on the firm's compliance.

Boards also often measure whether Directors attend faithfully, prepare diligently, speak up usefully (but not too often), and work well within the Board culture.

That may satisfy some, but we find growing numbers of Directors (and some CEOs) hungry for more. They seek to harness the Board's intellectual horsepower and business acumen to the goal of building a stronger, more valuable company, near term and over the horizon. For them, the test of a Board lies in how much value it creates, to complement what Management can do on its own. Their kind of Board must rise to a higher standard.

To us, the measurable attributes of Boards that meet that higher standard are becoming clearer by the day – consider these four examples:

1. High, dynamic expectations:

Most Boards can point to a role description, setting out duties, processes and activities. Often, these remain static over time. A select few Boards plan which critical issues they will delve into and what special contributions they will make in the coming year. Conscious of their audiences, they invite Management's expectations on how they can best contribute. Some also draw on the priorities of key shareholders. At least annually, they challenge and refresh the expectations they have for the Board overall, its Committees and Directors.

2. Courage:

Who would believe that Directors of some of our largest public companies could struggle to speak their minds? Yet time and again we hear that courage is at a premium when Boards are debating company strategy, stress-testing risks, or evaluating each other. In the strongest Boards, Chairs and CEOs create safe environments where transparency, candour and contrary views are expected.

3. Future Oriented Strategic Vision:

Every Board action implicitly rests on a shared assumption of what kind of future it wants the company to pursue. Leading Boards articulate that vision prior to selecting the next CEO to take them there, or to approving the next company strategy.

4. Thirst for learning and development:

Boards today engage in careful orientation of new Directors. Many also promote ongoing knowledge transfer to their members about the performance drivers for each business. The strongest Boards build and execute a learning plan that:

- Looks back to review key company watershed events, to reveal lessons learned for the Board
- Looks ahead to predict emerging challenges to equip Directors with the knowledge they will need

Seeking to advance your Board's performance?

Ask us about how we can help your Board to:

- Build a roadmap to creating higher value as a Board
- Re-focus agendas and efforts on higher-value work
- Enrich its contribution to company strategy & risk
- Prepare for CEO/Top Management Succession
- Prepare to excel at 'Moments of Truth'
- Strengthen Board composition and capabilities
- Foster leadership where Board & Management meet

Key topic for next time – what do you believe?

Is there one universal standard that every Board should aspire to?

Our recurring invitations: We welcome your reactions...agreements; disagreements... suggested future topics...other names you recommend to include in this conversation...

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