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Why Directors Should Not Fear Board Evaluations

By: *Alan J Kaplan*

In governance circles today, the conversations about board performance and evaluations continue to advance.

Governance advocates, proxy advisors and institutional investors encourage varying approaches to evaluating directors, assessing board effectiveness, and raising the bar on expectations for director contributions and performance.

Many community bank directors, however, are reticent to go down the board assessment path, fearing that the process will somehow result in their removal from the bank's board. The goal of any evaluation, however, should not necessarily be to weed out directors, but rather to **highlight areas for board and director improvement, and encourage continual forward movement on good governance**.

In our view, there are three general types, or levels, of board evaluation to consider:

Level 1: A general assessment of the board overall and how the group is functioning. This evaluation might include areas such as:

- Do we have the right committee structure, leadership and meeting frequency?
- Are we as a board focusing our time on the correct and critical topics?
- Do we have an appropriate and valuable range of skills and experiences around the board table to govern effectively in today's industry climate?

Level 2: This typically involves an element of "self-assessment," focused on what individual directors believe they contribute. This analysis highlights contributions of a technical, industry, business, community or other relative area. Self-assessments also aggregate the collective skills sitting in the boardroom, and help to inform the board about where there are critical gaps in the needed skills.

Level 3: This is where some trepidation arises—the individual evaluation. This assessment involves each director providing confidential feedback on their fellow directors, and should always be facilitated by a third party. Using an outside resource to review and compile the data provides a level of professional insulation between directors, and ensures anonymity of the assessments.

Peer evaluations can serve an important function by informing directors as to how their peers view their contribution. When viewed in conjunction with self-assessment output, it can provide a comprehensive, objective look at how each director views their contribution relative to how their contribution is viewed by their colleagues.

Many board members fear an assessment will expose shortcomings as a director. However, **the goal of evaluations is to highlight areas for improvement and strengthen governance**—not necessarily cull the herd. There are plenty of examples of directors whose contribution had slipped a bit due to personal or business distractions without realizing this shift occurred. In these instances, peer feedback was instrumental in helping that director return to highly engaged participation.

It's also common to see individual feedback highlight areas where directors needed updated training or a refresher course in bank operations or oversight, often resulting in additional training for all directors.

One of the hallmarks of the most effective boards is a desire for continuous improvement, and striving to become a "strategic asset board."

To be sure, board members whose contributions have declined considerably and remained below expectations for an extended period might need a "tough love" conversation. A board seat is a precious thing, and every director must bring current and valuable skills and experiences to the board table.

Directors whose lengthy tenure or legacy contributions are simply not up to current needs and governance standards—and who lack the fortitude for improvement—should ask themselves whether the bank would be better served by a different individual in that seat. It takes real maturity, self-awareness and a view for the "greater good" for a director to make such a determination.

Boards have long held to age limits more than term limits as a vehicle to repopulate their boardroom. Yet as directors age, many institutions are raising or waiving the age requirements to retain experienced directors. **Good reasons exist to keep veteran directors, but a board seat should be earned through performance**. Seats should not be "institutionalized" to an individual or family if those representing select interests are not qualified to contribute in a meaningful way and put the institution's interests above their own.

The highest performing boards make it a policy to conduct some form of evaluation on a regular if not annual basis. Whether though a general, self or peer assessment process, more informed boards make better decisions around board composition and continued director service.

Boards with the strongest, most capable and engaged directors will have the greatest ability to survive and thrive in a consolidating industry. Boards that utilize some form of assessment are more likely to be among the survivors going forward.

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