Blogs
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Mirror, Mirror on the Wall: Does Your Board Conduct a Self-Evaluation?


Here's a tip from the sixth edition of our popular publication ***The Public Company Handbook***, which is an easy-to-read guide that provides practical insights regarding legal and other board management issues facing public—or soon-to-be-public—companies.

Evaluating the Board and its core committees (Audit, Compensation and Nominating & Governance) on an annual basis has rapidly become a "best practice" for public companies. The NYSE's listing standards require annual self-evaluations in corporate governance guidelines and committee charters, and many Nasdaq companies conduct evaluations as part of a healthy corporate regimen. No single method has emerged as the "best" evaluation practice, yet these five practical tips have emerged as consistent guidelines:

1. **Choosing a Leader to "Own" the Process.** For the Board, this should generally be the chair (if independent), the lead director or the chair of the Nominating & Governance Committee. For evaluating a committee, it will be that committee's chair. The director responsible for the evaluation process has a number of decisions to make, the discussions are sensitive, and the evaluation needs to get done – all good reasons to entrust the process to one person.

2. **Deciding on Written or Oral – or Both?** The director responsible for the evaluation process should make a threshold decision as to whether the inquiry and the results should be written or oral. Talk to the CEO, Board chair and general counsel, as there are many opinions – and no perfect answers. Often, the questions are written, the evaluation itself is a live interview and a summary of the results – including how your Board will address any shortfalls – is in writing. Alternative formats include written questionnaires and a single Board or committee meeting focused on self-evaluation.

3. **Assessing the Board as a Whole**. Ask your fellow directors: How is the Board performing its responsibilities of strategic planning, financial and risk oversight, succession planning, executive evaluation and compensation?

4. **Assessing Individual Director Performance: Independence and Suitability Annually and Overall Performance Periodically.** The most difficult part of any Board self-evaluation is assessing individual director performance. On an annual basis, the Board needs to make independence assessments and determine suitability of the directors for service on its core committees. A Board could assess individual directors' performance annually, but it is probably sufficient to make these assessments every second or third year (which could be part of a regular renomination process for companies with staggered Boards).

5. **Shortcomings? Address Them – Promptly.** Self-evaluation will almost certainly reveal some shortcomings. Before completing the evaluation process, develop proposed solutions. And ask the director who "owns" the process to report back to the Board at an appropriate time on success in addressing any issues.

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