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Board Assessments

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Board of directors is a group of people working together. These people are mostly professionals, and they hold high positions. There is almost no hierarchy on the board of directors. You have the chair of the board of directors, but other than that, everybody's equal. They regularly meet and make complex decisions. So, from time to time there is a need to evaluate the activities of the board and its members.

Board evaluation is an analysis that allows companies to predict dramatic failures. A board review is like an analysis of what the board is doing and how they are doing it in order to prevent the dramatic failures. Board reviews are an established practice in the West. But it very much differs from country to country.

In the U.S. it's a mandatory requirement to perform regular board assessments for a company listed on the New York Stock Exchange; that is, the requirement is fixed in the terms of listing. Otherwise you cannot be listed on the New York Stock Exchange. In other countries, like France, Luxembourg, the Netherlands, Italy and the U.K., board assessments are provided for in the national Corporate Governance Codes. And in some other countries, these kinds of evaluations and assessments are optional or totally unknown. In Germany, for instance, a board evaluation is not mandatory, but it is done.



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Board evaluation methodology can be presented by answering the following questions:

1. What is the subject for the assessment?
2. Who performs the assessment?
3. Who leads the assessment?
4. How is the assessment done?
5. What information is disclosed about the assessment?
6. What follows the assessment?

Figuratively speaking, the board assessment is like an annual inspection of a car. We need to have our car inspected to ensure that it's still safe both for us and the road.



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QUESTION 1: What is the subject for the assessment?

The effectiveness of the board as a whole and the effectiveness of each board member individually are subject to evaluation. That is, first the board is evaluated as a group, and then the people who make up that group are evaluated.

When evaluating the effectiveness of the board, the following is considered:

Board structure: Existence of board regulations, committee practice, board composition, like who is involved in the board, their diversity by gender, age, origin and other criteria.

Board management: The individual of the board chairman is very important here. The way the board works and how people relate to each other much depends on him.

Processes going on in the board: Preparation of board meetings: distribution of agendas, documents to board members in advance; taking down minutes, remote organization, recording of the meetings, usage of software. These are technical issues, but they do have a significant impact on the effectiveness of the board.

When evaluating the effectiveness of a board member, the following is considered:

Independence of the member financially, legally, morally, as well as his/her independent way of thinking,

Competence of the member: his/her basic and special knowledge, experience, awareness of ESG, D&I and other issues,

Behaviour of the member: his/her integrity, communication skills, respect for colleagues.



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QUESTION 2: Who performs the assessment?

The evaluation can be done by the company's own efforts, as well as by attracting an external consultant. There are cases when the board assessment is driven by the corporate secretary. The latter knows the people, the process doesn't cost much, but the corporate secretary is also not independent. He/she works for that company, and in fact, he/she is watching his/her supervisor.

A review by an external consulting firm is a much better option, as the assessors are neutral, independent, experienced and professional, but such evaluation is expensive, and one must not forget that external evaluators are outsiders, and they are not aware of the company's internal issues. On the one hand, the independence of external consultants allows them to engage board members in an open-hearted conversation, and on the other hand, their strangeness creates trust issues.

QUESTION 3: Who leads the assessment?

The evaluation process should be led by the Chairman of the Board. He or she should be motivated when reviewing the board. External consultants can assist him/her in this matter. In the U.S. and the U.K., there is a concept of the lead non-executive director who can also guide the process. Regardless of the involvement of an external consultant, the board assessment should be guided from within the company.



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QUESTION 4: How is the assessment done?

Data and information needs to be collected for a board review.

The board evaluation starts with a document review: the minutes and protocols of the board, the agendas, the regulations of the board and committees. It is problematic when protocols has been written late, as the risk of information loss can't be excluded, or the company is in trouble, but on the board agenda there are only unimportant items.

The document review is followed up by a survey. A simple approach to interview the board member is to collect data through a questionnaire. However, this method often fails to give answers to a number of sensitive questions.

So that is why direct interviews are conducted with board members for data collection. At the same time, it is a much more complicated but more effective way, because the quality of the information disclosed is deeper. Direct interviews with board members take more time and require a deeper intrusion into the board of directors.

The most insightful way of collecting data is when the consultants take part in a board meeting. The consultant participates in the meeting of the board as an observer, sits behind and watches, how the members of the board interact, how the chairman of the board directs the meeting. This is an ideal way, but it does not happen very often, as it requires a lot of trust by the company towards the consultant.

At the same time, there are technology solutions for data collection. For example, Diligent and NASDAQ have their own software that are trustworthy, safe and secure data collection tools and can be used to conduct board reviews electronically.



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QUESTION 5: What information is disclosed about the assessment?

In the West it has become a good practice when the company discloses that a board review has been taking place. Investors and also other stakeholders of the company appreciate when the company discloses the answers to the following questions in connection with the board review: Why the assessment was done? What was done and how it was done? All this is made with the exception of personal, confidential information disclosure.

The evaluation of the board is just a proof of quality that a company is serious about the performance of its board. More and more countries require that information on the board review has to be published in the annual report.

QUESTION 6: What follows the assessment?

The board evaluation should be followed by certain actions, which are based on the recommendations presented in the evaluation report, such as filling the lack of digital experience in the board, changing the leadership style and attitude, diversifying the board composition, etc. This is usually what a company values most. Board evaluation helps them to become better in what they do in the boardroom.

Board evaluation is a structured process with a sequence of key actions and strict timing, with milestones. If one manages the process thoroughly, it can take up to two months.



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The most difficult part of board evaluation is evaluating people's behaviour. As a result of the evaluation, it is necessary to find out who is the "bad apple in the basket", who is doing things in the board meeting that destroy the spirit, who is behaving in a way that other board directors are not willing to say their opinion anymore because they are scared, they feel suppressed or bored because that person talks all the time.

We should not forget about the cultural aspects and features. In this regard, before evaluating the board, it is necessary to think about what is the right approach to find out the truth in your culture: Is that a face-to-face interview or an anonymous one? Or is it better when someone from within interviews the board or whether it is necessary to involve a neutral person from outside?

Board evaluation has no value if it is done only to be done. The evaluation of the board should be closed with an action plan:

- What lessons did we learn from the evaluation report?
- What are our next steps?
- What are the company, the board going to do?

And only then will the full evaluation cycle be closed.