

BOARD EVALUATION

**CAPACITY BUILDING PROGRAM
GOVERNANCE CENTER - NAIROBI**

March 04, 2017

**CS. Gabriel Kimani
gkresile@gmail.com
0721-541 764**

THE BOARDROOM



2050 - ALAN & MARGARET EYRE BOARDROOM

Session Objectives

By the end of the session, the participants should be able to:

- Define Board Evaluation and present the case for Board Evaluations;
- Explain types of Board Evaluations and identify distinct characteristics of various Boards;
- Identify different players in the process of Board Evaluation;
- List types of Evaluation Assessments in an Organization; and,
- Describe the role of Governance Consultant in Board Evaluation.

Board Evaluation: Definitions-

- The process through which performance of the Board, its committees and individual members of the Board is assessed against an established benchmark.
- Feedback on performance of individual Board members, Board Committees and the Board as a whole.
- Formal, accountable and transparent assessment process that sets out responsibilities, criteria, opportunities for participation, feedback reporting and follow-up actions.
- Evaluation = Assessment.

The Case for Board Evaluation

- The primary benefit of carrying out a board evaluation is to improve the performance of the board and, in so doing, improve the organization's performance.
- Board Evaluation is the most effective way to ensure Board members understand their duties and to adopt effective good governance practices. To be effective, boardroom appraisals need to have specific, clearly defined steps and practices, and a special commitment from the Board.

The Case for Board Evaluation....

- There is a strong correlation between the performance of the board and the performance of the wider organization.
- Self-evaluation provides a board with the tools and techniques to both review and plan ahead .
- Just as setting clear objectives and carrying out regular performance appraisals is important for employees, it is as important for the board.
- Board Evaluation is a good governance practice.

The Case for Board Evaluation

- The board should have the appropriate balance of skills and experience to fulfill its mandate, as the composition and performance of the board and its committees are key factors that will determine the success of the organization.
- In order to maximize the benefit that the company obtains from the board, regular performance evaluations should be conducted and areas of improvement identified.
- This is important not only to enhance the efficiency and effectiveness of the board, but also to develop individual directors to enable them to better add value.

Class Exercise

List benefits to the organization of carrying out Board Evaluations for the following:

- i. The Board as a whole;
- ii. The Chairman of the board;
- iii. Individual directors.

(12 Minutes)

Distinct Characteristics of Boards

Board evaluations should take into account the distinct characteristics prevailing in different Boards, i.e. on case-by-case basis. Such characteristics are prevalent while dealing with:

- Public vs Private Companies;
- Profit- oriented vs Not- for- profit organizations;
- Listed vs unlisted companies

Group Exercise

Identify salient features differentiating the following Boards:

- i. Public versus Private Companies;
- ii. Commercial versus not-for profit entities;
- iii. Listed versus unlisted Companies.

(12 Minutes)

Types of Board Evaluations

Board evaluations may be classified as self-evaluations or external evaluations.

- In self-evaluations, the Board is responsible for managing the process. They can be coordinated either by the Board Chair, the Governance Committee Chair, or the Board Secretary/ Corporate Governance Officer. A Boards' performance is generally evaluated by a standard questionnaire and/or through one-on-one interviews.
- Assessment input can be sought from other stakeholders (e.g., executive officers and shareholders).

Types of Board Evaluations.....

- External evaluations are carried out by an external third party, retained by and reporting to the Board.
- External evaluations of Board members are also made by using a questionnaire and/or one-on-one interviews.
- External evaluators are in mostly expected to bring their own judgment on the quality of the Board's performance during the evaluation, and may decide to also request inputs from other stakeholders.

Types of Assessment

- Board assessment
 - generic - focus on Board role of objective setting, strategy and planning, risk management, financial, human resources, Board process e.t.c.
- Committee assessment
- Board Chair assessment
- Committee Chair assessment
- Director assessment

Players in Evaluation Process

- The Board
- Governance Committee of the Board
- The Certified Secretary
- The Executive Management;
- The External Governance Consultant /
Facilitator;

When Evaluation is Done

- Annually at least
- At the point in the year when the information from the evaluation can be acted upon
- A culture of assessment implies continuous improvement.

ENV

த

தேசத்தின் 1

Session (II) Objectives

By the end of this (second) session, the participants should be able to:

- Discuss the role of Governance Consultant in Board Evaluation.
- Determine different Performance Criteria for Boards;
- Explain Board Evaluation Process;
- Identify examples of Board Evaluation Tools and their importance.

The Role of Governance Consultant

- Primary role is to facilitate the Board in evaluation process.
- S/He guides the Board and advice them in the process because s/he possess technical knowledge in Governance.
- Examples : Helping in designing assessment criteria, offering clarifications to players in ranking and awarding scores.
- Analysis, interpretation and reporting on findings.
- Making informed recommendations on improvement.
- Guiding in development of action plan and subsequent follow-up.

Performance Criteria for Boards

The Board performs three major roles in a company

- it provides direction (i.e. sets the strategic direction of the company);
- it controls (i.e. monitors the management); and,
- provides support and advice (advisory role).

Board evaluation typically examines these roles of the Board and the entailing responsibilities, and assesses how effectively these are fulfilled by the Board.

Performance Criteria for Boards....

The effectiveness of the Board depends on a variety of factors. These factors comprise parameters within which evaluation is conducted.

Examples of parameters include:

- **Board Structure:** its composition, constitution and diversity and that of its Committees, competencies of the members, Board and Committee charters, frequency of meetings, procedures;
- **Dynamics and Functioning of the Board:** annual Board calendar, information availability, interactions and communication with CEO and senior executives, Board agenda, cohesiveness and the quality of participation in Board meetings;

Performance Criteria for Boards....

Other parameters are:

- **Business Strategy Governance:** Board's role in company strategy;
- **Financial Reporting Process, Internal Audit and Internal Controls:** The integrity and the robustness of the financial and other controls regarding abusive related party transactions, vigil mechanism and risk management;
- **Monitoring Role:** Monitoring of policies, strategy implementation and systems;
- **Supporting and Advisory Role;** and
- **The Chairperson's Role.**

Group Activity

Develop a set of 5-generic evaluation questions on each of the parameters below that could be used during a board evaluation (Please indicate scoring criteria):

- Board Structure: Dynamics and Functioning of the Board;
- Business Strategy Governance;
- Financial Reporting Process, Internal Audit and Internal Controls;
- Monitoring Role;
- Supporting and Advisory Role; and
- The Chairperson's Role.

(20 Minutes)

Board Evaluation Templates

- What are they?



Templates

- These are tools used to collect data and information during Board evaluation process.
- They comprise suitable sets of questions drafted for every parameter and aspect to be assessed.
- The templates are developed based on the governance framework of the entity to be assessed or within conventional governance framework for the general industry of the entity.
- Conventional templates could be based on the benchmark of a high performing organization across a number of governance parameters.

Templates...

Templates should be tailored to suit organization and category of assessment. Examples of templates would be:

- Board evaluation template. - Board Charter
- Board committee evaluation template- Charter
- Chairman's evaluation template – Charter and JD
- Directors Evaluation template. – Board Charter
- CEO Evaluation template; - Board Charter and JD
- Certified Secretaries templates – Board Charter and JD

X-tics of High Performing Organizations

1. Competent Board and staff leadership;
2. Board engagement in strategic leadership;
3. A customer and result oriented;
4. Positive relationship with key stakeholders;
5. Good financial stewardship;
6. Effective and efficient use of resources;
7. Clear lines of accountability;
8. Good meeting management;
9. Organizational culture promoting team work and value system; Low levels of internal conflict; and
10. Perceived legitimacy and credibility.

Board Evaluation Parameters

1. Ethical Leadership and strategic management;
2. Transparency and disclosure;
3. Compliance with laws and regulations;
4. Communication with stakeholders;
5. Board independence and governance;
6. Board policies, systems, practices and procedures;
7. Consistent shareholder and stakeholders' value enhancement;
8. Corporate social responsibility and investment.
9. Sustainability.

ENV

த

தேசத்தின் 2

Session (III) Objectives

By the end of this (third) session, the participants should be able to:

- Discuss the steps involved in carrying out professional assignment involving Board Evaluation.
- Identify Board tools and documents required in evaluation;
- Carry out Desk review of various Board Tools and documents; and,
- Prepare a draft and final Board Evaluation report;

Board Evaluation Process: Consultants View Point

- In most cases, the Governance Consultant will be engaged on a paid up assignment to carry out Board evaluation for an entity.
- In such instances, s/he will be required to carry out the assignment in accordance with the prescribed code of conduct and professionalism.

NB: It is assumed that the CS possess Consulting Skills.

Evaluation Process: Consultants View Point- Steps

Step 1: Engagement

All professional engagements SHOULD be anchored in a signed engagement letter detailing ToRs and other contractual obligations of both the client and the consultant/ facilitator.

Step 2: Desk top Review

Desk top review of entity's operating environment, governing legal framework and Strategic Plans e.t.c.

Review of the last Board Evaluation report(where applicable)

Evaluation Process: Consultants View Point- Steps

Step 3: Design of Templates

Preparation of questionnaires for the Board, Chairman, Individual Board members, Committee members and CEO

Step 4: Preliminary Meetings

Preliminary interviews with stakeholders

Step 5: Actual Evaluation

Board evaluation exercise

Evaluation Process: Consultants View Point- Steps

Step 6: Draft Report

Drafting of Board Evaluation report

Step 7: Presentation of Draft Reports

Presentation of the draft Board Evaluation report, receiving of comments and discussing recommendations

Step 8: Final Reports

Incorporation of comments and submission of final Board Evaluation Report

Desk review of various Board Tools and documents

To effectively carry out the assignment, the client will be required to avail among others the following documents to the consultant for review:

- Last Board Evaluation report
- List of Directors and Board Committees
- Entity strategic Plan
- Board Manual and Terms of Reference for the Board Committees
- Code of Ethics for Directors

Desk review of various Board Tools and documents

Other documents for review are:

- Organizational Structures
- Most recent financial statements of the entity;
- Entity's Risk Management Framework
- Any other relevant document as the consultant may request.

A Typical Time Table

MONTH XXX YEAR 20AD		
Duration	Session	Facilitator(s)
30 - 45 Minutes	<ul style="list-style-type: none"> Registration Introduction and Welcome Opening Remarks 	Entity/ Consultant
30 - 45 Minutes	<ul style="list-style-type: none"> Leveling of Expectations Overview and appreciation of the board evaluation process Review and adoption of the board evaluation tool 	Entity/ Consultant
30 - 45 Minutes	Completion of Board Evaluation Questionnaire by Chairman, Board Members, Committee members and CEO	Consultant
45 - 75 Minutes	Board Evaluation Interviews of Chairman, Board Members, Committee members and CEO	Consultant
30 - 45 Minutes	<ul style="list-style-type: none"> Programme Evaluation The Way Forward and Closure 	Entity/ Consultant
	Health Break and Informal Discussions	

PREPARING BOARD EVALUATION REPORTS



Analysis and Reporting

- Analysis and Reporting should not take inordinate time to complete.
- The assignment must however be done within agreed timelines as per contractual documents. Where time was not expressly given, the consultant should spend a reasonable time to finalize the assignment.
- Analysis should be properly done, correct inference and recommendations given.
- The report should be skillfully written (i.e. obey basics of writing)

Action Plan and Follow up

- The findings and recommendations in the evaluation report should be formulated into action plan with given timelines.
- The action plan shows suggested roadmap for improvement and remedy in areas which were found wanting during the evaluation.
- The Consultant should assist the entity in implementing this plan and should also offer to monitor the progress if requested.

The Consulting Consultant/ Governance Expert

- It is advisable that the Governance Consultant should seek counsel from his/ her peers whenever there are issues worth discussing.
- Consulting or even asking is NOT a sign of weakness BUT rather one of the consulting skill of a consultant – Sharpening the Saw!

Case Study

Your group is provided with a summary Board evaluation results for XYZ Board. Study the results carefully.

Required:

Answer question (a) and (b) as instructed.

(25 Minutes)

Making Board Evaluation Process Work!

- Adequate preparation.
- Sacrifice for time.
- Atmosphere of trust.
- Positive tone from the top.
- Use consulting skills

THE END

