

The Value in Board Evaluations

Turning Ideas into Action

At Nasdaq Governance Solutions, we support board and management teams as they seek to overcome challenges and adopt sustainable business practices. Our board engagement team often hears that organizations are looking for ways to improve their board evaluations. A well-designed evaluation process may be key for boards driving director engagement and boosting board effectiveness. The hallmarks of a well-designed process may include:

- Deepening board understanding of the governance, operational, organizational, and financial risks and opportunities.
- Driving director engagement and alignment with the management team on governance priorities.
- Enabling the board to fulfill its responsibilities and effectively oversee the management team.
- Responding to stakeholders' demands for commitment to healthy governance practices.
- Fostering board-level participation in the strategic planning processes.
- Identifying action points and plans for future governance needs.

Why Should Boards Conduct Evaluations?

In this new era of corporate governance, organizations—and their boards—are adapting to complexities driven by factors such as crises, societal perspectives, regulatory requirements, and economic changes. Plus, boards are responding to investor, regulator, and other stakeholder expectations for more participation and engagement. Robust disclosure of the evaluation process helps reinforce the board's effectiveness and commitment to its role. Based on the board engagement team's work with boards, it's become clear that a well-structured evaluation can be an effective driver of improvement.

Boards may face external pressures, such as:

- Exchange listing rules concerning annual board evaluations.
- Company governance charters concerning annual board evaluations.
- Legal and regulatory obligations concerning annual board evaluations.
- Investors may expect annual board performance evaluations of companies.

In addition, boards may face internal pressures related to responsibilities, such as:

- Setting a clear tone of appropriate accountability throughout the organization.
- Having an evaluation processes in place to achieve improvement.
- Signaling that they care about the performance of the management team and employees.
- Engage in and understand key drivers of corporate performance and sustainability, including total shareholder return.

Moving Beyond “Good Governance”

Governance excellence is grounded in self-awareness and commitment to continuous improvement. To help improve effectiveness, boards should:

- Foster positive, maturing group-board dynamics.
- Establish strong governance practices.
- Generate a deeper sense of excitement about the business’ future.
- Promote engagement by all board members.
- Maintain a healthy relationship with the management team.
- Ensure focus on mission and strategy.
- Cultivate a healthy organizational culture.
- Regularly gauge its effectiveness through robust evaluation processes.

To move beyond simply “good governance,” boards should consider taking a holistic approach that includes evaluating the full board, as well as its committees and individual directors.

- Limiting the scope of the evaluation process to only a review of the full board may discount the contributions and fundamental value of the committees and individual directors.
- The board’s overall effectiveness may be impacted by the board chair’s effectiveness. Therefore, evaluating the board chair’s leadership may be key to the board’s development. Also, effective board chairs consider inviting director peer evaluations and self-evaluations.
- Board and management team alignment is important to organizational success. When appropriate, inviting key members of the management team to evaluate the CEO helps gauge this alignment.
- The management team’s insights and candid observations about the board’s functioning and dynamics can contribute to the board’s understanding of its effectiveness.

Optimizing the Evaluation Process

As the maxim goes, timing is everything. The board should consider conducting its annual evaluations when directors have time to provide thoughtful feedback and when the board can build resultant actions into its work plan and agendas. Key questions around timing may include:

- How much time should directors and other respondents allocate to complete the evaluation?
- Will the process foster candor from directors in their feedback?
- Once evaluations are submitted, how much time does it take to conduct analysis and develop strategic reports?
- Are the goals of the process clear and will the deliverables meet the board’s needs and expectations?
- When should the evaluation results be shared and by whom?
- Who should lead the discussion of the aggregated feedback?

A process that allows too much time to elapse from receiving evaluation responses to reviewing results may diminish relevance. Digital evaluations may be effective at gathering timely and candid feedback by enabling directors to provide honest and thoughtful perspectives in an efficient manner.

The evaluation questions should be clearly worded and targeted. The scope of the questions should focus on core areas and be comprehensive without being redundant. Including rated and open-ended questions may help to enhance reporting by balancing quantitative and qualitative insights. In addition, one-on-one interviews conducted by a third-party governance professional may add depth and breadth to the process.

Third-Party Facilitators in Board Evaluations

A third-party evaluation facilitator may allow for a more transparent process and could bring expertise in evaluations and governance practices, such as:

- Knowing about governance trends and best practices.
- Having interview skills that add value to the evaluation process.
- Enhancing candor through the assurance of director anonymity.
- Adding objectivity and integrity in the analysis of results.
- Comparative benchmarking against past performance and peers.
- Facilitating continued open discussion and committing to action.
- Removing risk of bias, manipulation, or favoritism.
- Helping to preserve board resources for other governance tasks.
- Offering independent, objective perspectives.

Board Evaluations Lead Towards Excellence

Facilitating a thoughtfully designed board evaluation process may help directors become more effective in fulfilling their roles. A quality board evaluation may include:

- An efficient process aligned with the board's governance excellence goals.
- A structured process that is designed to promote candor and openness, as well as maintain directors' anonymity.
- A process designed to drive strategic discussions by providing analysis and action points.

The purpose of a board evaluation is to help boards promote director growth and development through a well-designed process.

The Nasdaq Governance Solutions board engagement team helps public, private, and non-profit organizations with the design and implementation of board evaluations. The team tailors the evaluation and interview processes to assist boards as they pursue their governance objectives. Plus, report results may help boards identify growth opportunities, deepen board and management team engagement, and turn director feedback into strategic action. **To learn more, visit nasdaq.com/solutions/board-evaluations or email Contact@Nasdaq.com.**

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