BOARD EVALUATIONS IN 2020 REQUIRE A NEW AND *20:20 VISION*

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Today's investors want to know more about board evaluations than ever before. They want to see that the board has taken the process seriously - and will follow up on issues identified during the process. They want to see more disclosure about the process, the procedures - and the results. They want to know that the evaluation has focused on the board, its committees and on its directors as individuals. They are especially interested these days in hearing about changes that have been made as a result of board evaluations.

Directors themselves have become bored responding to lengthy questionnaires that cover the same ground year after year. Directors report rating themselves highly and giving colleagues high ratings so as not to offend. And they complain that variances in ratings from year to year tend to be modest at best and don't really aid in understanding the real issues for the board. In short, directors and investors want board evaluations to provide 20:20 clarity.

To put it plainly, the use of standardized questionnaires relying solely on ratings, will not accomplish what today's investors are looking for. What they are looking for - and what boards themselves are increasingly looking for too – is, from time to time that boards engage in a serious, nuanced and in-depth look at the board, its committees and the individual directors, using a process that has been tailored to the particular company, the board and its directors - and in the context of both the current and expected business environment. And increasingly, both investors and boards understand that evaluations like these need to be managed and facilitated by an independent, and above all, a knowledgeable, thoughtful and tactful governance professional.

In my own experience, a major factor in the move away from standard questionnaires to a more in-depth and more deeply probing process is often the recognition by the board or board leadership that there are one or more sensitive "issues" where an experienced governance professional can be particularly helpful. For example, different personality types and different communication styles types on a board often lead to a desire for a more in-depth evaluation process. One or more domineering personalities can have the effect of stifling communication in the boardroom, occasionally creating the impression - and sometimes the reality - of a lack of engagement on the part of some directors. Having interviews with directors as part of the board evaluation allows for a teasing out of the real issues. In one case, the few directors who chose not to engage with the domineering director were fully engaged in the board's work, but were not interested in having confrontations, which limited board discussions. The board conversation and dynamics among board members changed following discussions with individual directors as part of the board evaluation, and a carefully and sensitively delivered report to the full board.

Boards that may be targets of activist investors typically have very specific issues to be explored during the evaluation process. Boards with activist investor representatives on their board often have issues with board dynamics and trust that need to be addressed.

Obviously, there are sensitive issues that can come up in a board evaluation that are not for public disclosure. However, there are ways of providing greater transparency to investors around the evaluation that can demonstrate the commitment by the board to having a serious and thorough process - and also to disclose some areas where the board plans to spend more time in the coming year or where changes in policies, or additions to the board have been made as a result of the evaluation. An experienced governance consultant can work with the corporate secretary on these disclosures if requested.

Boards that seemingly have no issues will also benefit from a more tailored approach to the board evaluation. To cite a simple example, a review of company disclosures and a few preliminary conversations with board leadership would surface the existence of newer members on the board and their backgrounds. The evaluation could be tailored to include specific questions on the orientation process for those directors and whether there is anything else they need at this time. In another, more striking example, twice recently boards thought they had robust CEO succession plans in place - but the oral interviews with directors during their board evaluations brought out significant differing views on the subject.

Directors can also differ on the priorities for the upcoming year under the current strategy, so raising the question highlights those differences and can lead to greater consensus on how the board will spend its time. Board schedules, or the quality and timeliness of materials provided to the board, often come up in evaluations. Once the issues have been identified and reported back, the board and management can easily follow up and make necessary adjustments.

Follow up is key. When an experienced governance professional conducts the board evaluation, she can explore a variety of ways the board might address their current challenges. And while many boards care about the potential for the attorney-client privilege to apply to the evaluation and its results, boards with challenges care more than most. If the governance professional is a lawyer, she can take the necessary steps throughout the board evaluation process to safeguard the company's privilege, to the extent it may apply.

A board evaluation process that has been tailored to the individual company and board has a greater chance of yielding useful information about where opportunities for improvement lie as well as what is working well. An evaluation with a limited set of carefully targeted written questions, asking for open-ended responses, will enhance a subsequent focused and confidential interview with each director. If the

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process is led by a skilled governance professional with knowledge of director fiduciary duties and experience working with boards and senior management, she will develop and ask pertinent questions as part of the evaluation based on that company and that board and at that time.

Board evaluations, if done well, can lead to greater engagement by board members, to more focused agendas and clearer processes. They can lead to positive changes in director behavior, to the identification of missing skill-sets, to changes in board composition - and occasionally, the recognition by a director that he or she is no longer adding value in a way that the board needs at this time.

If done well, board evaluations will lead to enhanced effectiveness of individual directors - and of the board as a whole. Most important, they can be the beginning of more meaningful conversations among the directors, and among directors and management, and often among the company's leaders and its investors.

Kristina Veaco is the founder of Veaco Group, a corporate governance advisory firm that provides independent board evaluations and governance consulting to for-profit public and private companies and nonprofit organizations, including pension funds. Kris and her colleague Cherie Sorokin are both former in-house corporate governance lawyers and corporate secretaries with responsibility for corporate governance at large public companies. Kris can be reached at kveaco@veacogroup.com.

"What sets us apart is both our experience as board members and our in-house experience as corporate governance lawyers providing the legal and organizational support to our large public company boards, combined with our experience as independent corporate governance consultants working with a variety of boards on their effectiveness. We know what works."

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