

Individual director assessments

If you aren't already assessing individual director performance, you should start

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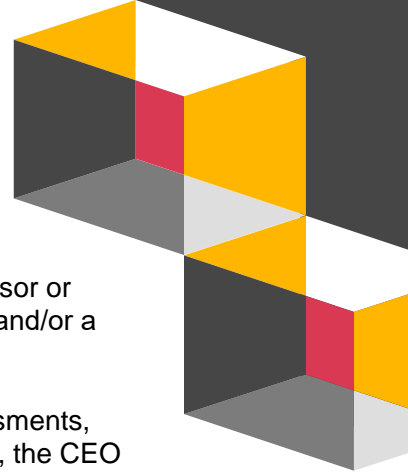


Performance assessments have long been a standard talent management tool. They can help promote accountability, encourage development and confirm that companies have the skills and experience needed to support the company's strategy. From the CEO down, everyone undergoes an assessment process.

But that is not always the case with individual directors. Since the NYSE requires listed companies to assess [the board and its committees](#) at least annually, most boards participate in an assessment process — but often the board is looked at only in aggregate. This process may include input from the C-suite, board members themselves and perhaps an outside consultant. Yet fewer than half of S&P 500 boards disclose that they perform [individual director assessments](#).

Assessing an individual director's performance offers an opportunity for nuanced, ongoing feedback. Appraising individual directors can also ultimately improve individual and collective board performance. And these assessments can be used to help the board identify skill gaps and improve group dynamics — as well as accelerate necessary changes in overall board composition. Every board would likely benefit from periodic refreshment to energize it with fresh perspectives, and shift emphasis and experience to keep pace with the rapidly changing business landscape.





Why should boards do peer assessments?

The hierarchical nature of most organizations means that the CEO on down has a supervisor or governing body to appraise their performance. Boards are different. While there's a chair and/or a lead independent director as well as committee chairs, board members are peers.











Increasingly then, boards that evaluate individual performance are leveraging peer assessments, with directors anonymously assessing their fellow board members. As part of this process, the CEO and other senior leaders may also provide individual director feedback. Individual director assessments can provide insights into not only the value of individuals' contributions, but also how an individual's presence affects the board's overall culture and performance.

How can boards do assessments the right way?

Confidentiality, objectivity and candor are key to generating useful results. Our research suggests that most board assessments generate responses that are less than entirely frank — erring on the side of generous. As a result, boards may want to consider having an independent third party help facilitate the process. Only one-quarter of boards use an [independent third party](#) today.

Boards and outside advisors should consider how the assessment is designed. Most boards that undertake individual director assessments combine in-person interviews with electronic surveys. Surveys can quantify findings for year-over-year comparisons; interviews can enhance those insights through open-ended and candid commentary. Interviews are typically conducted through one-on-ones, in which directors offer feedback on overall governance practices as well as on their fellow board members and the expertise each brings to the board.

On what criteria are directors typically assessed?

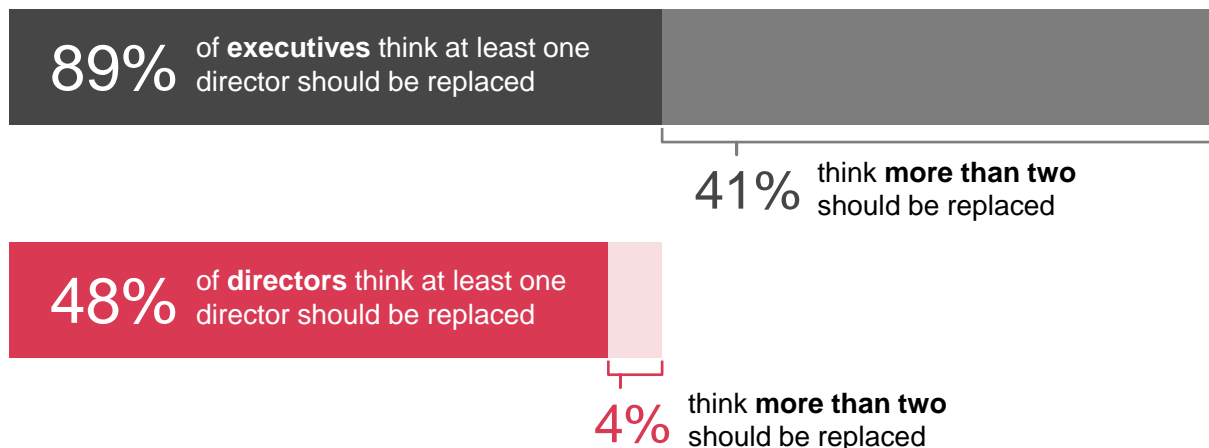
-  Meeting attendance rates
-  Degree of preparation
-  Active participation during meetings
-  Ability to communicate and express ideas
-  Willingness to listen and acknowledge other viewpoints
-  Understanding of the company and industry
-  Ability to work with directors and management
-  What the director does well
-  What the director should do differently
-  Overall level of contribution





Why should boards consider individual director assessments now?

Our research shows that C-suite executives are concerned with board performance and would like to see more turnover, with an appetite for refreshment that far exceeds that of directors.



Q: In your opinion, how many directors on your board should be replaced? (select one)

Base: 585 (executives); 693 (directors)

Source: PwC and The Conference Board, *Board effectiveness: A survey of the C-suite*, May 2023; PwC, *2022 Annual Corporate Directors Survey*, October 2022.

Survey results confirm that directors are generally reluctant to voluntarily retire, and executives are often frustrated by board tenures they see as overly lengthy. As the business landscape shifts, executives may be looking for directors who can help fill gaps in rapidly evolving areas of board oversight, such as cybersecurity, artificial intelligence and ESG.

Individual director assessments can provide information that is both quantifiable and comparable about what each director contributes and what value each brings to the boardroom in light of the company's shifting strategy and areas of oversight. Anonymized peer feedback can help directors better understand their strengths, where they might be falling short, and how they can improve their individual performance. Individual director assessments can also identify disengaged or underperforming board members, triggering needed refreshment. Finally, these assessments demonstrate to investors the board's commitment to holding individual directors accountable for their performance.

Why are some boards still hesitant to conduct peer assessments?

Boards may be reluctant to undergo peer assessments. Few people enjoy receiving feedback if it's not positive — particularly when the feedback is anonymous. Some directors see peer assessments as damaging the board's carefully-calibrated dynamics and culture, potentially eroding trust and inhibiting discussion.

Reasons why boards choose not to conduct individual assessments



53% Board and committee assessments are already robust

25% Concerned it will have a negative effect on board collegiality

23% The effort is greater than the perceived benefit

20% The board chair/lead director opposes performing individual assessments

8% The CEO opposes performing individual assessments

4% It's too time-consuming

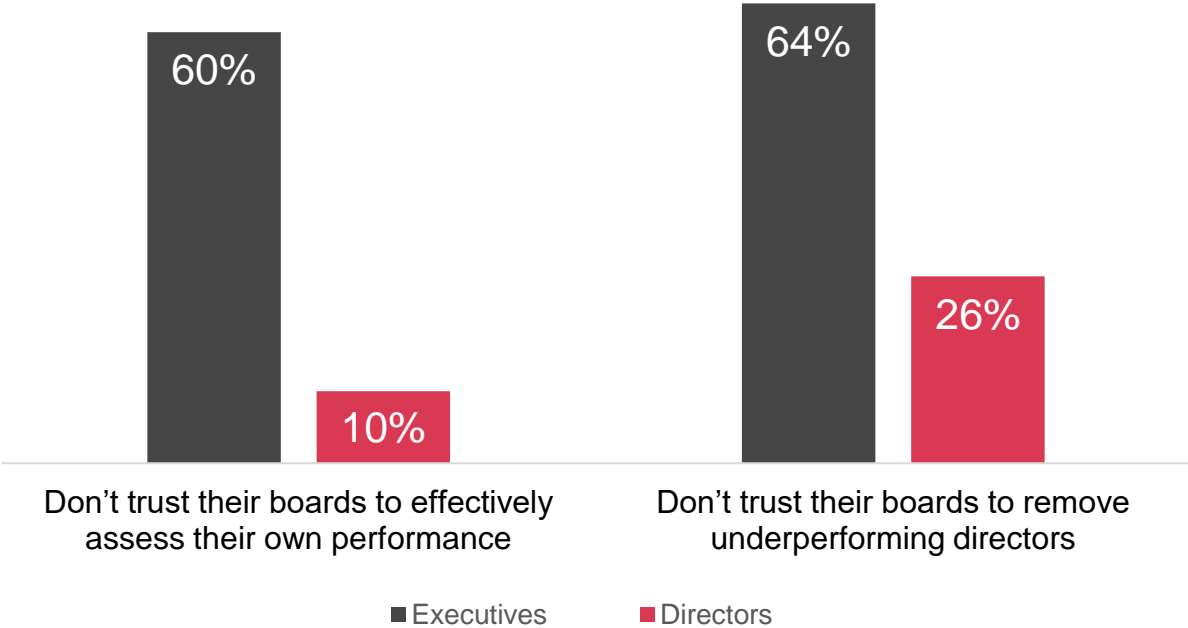
Source: PwC, 2023 Annual Corporate Directors Survey, Forthcoming.



How can boards make sure assessments are effective?

The most effective boards set up assessment processes that include robust follow-through. For instance, the process should support the chair/lead director to candidly deliver assessment results. The results should then be translated into outcomes to promote continuous improvement. Using assessment results to suggest improvements in individual performance can also make it easier to make broader changes, such as accelerating a long-tenured director's departure in favor of a new director with more relevant experience.

Trust gap between executives and directors on assessment outcomes



Percentage of executives and directors responding "not very much" or "not at all"

Q: To what extent do you trust the board to effectively; How confident are you in your board's ability to effectively:
Base: 591-592 (executives); 544-545 (directors)
Source: PwC and The Conference Board, *Board effectiveness: A survey of the C-suite*, May 2023; PwC, *2023 Annual Corporate Directors Survey*, Forthcoming.



How can boards make individual assessments worth the effort?

Boards should consider taking broad steps to lay the groundwork for individual assessments to make the process more productive for directors:



Hold candid conversations about board tenure, refreshment and succession to help eliminate the stigma of stepping down from a board. The nominating/governance committee should lead the discussion on tools to promote board refreshment, whether through individual director assessments or other mechanisms such as age or tenure limits. Timelines for board service can vary: a shorter time horizon may be sufficient to help oversee a digital transformation or navigate a turnaround; other times, a director's wisdom and perspective may still be essential after a dozen or more years. Directors should work with the board chair or nominating/governance committee to develop their own personal plans for succession.



Re-frame the purpose for conducting individual director assessments. How directors perceive the purpose for assessments has a big impact, affecting how much directors are willing to share and their commitment to the process. It can be helpful for boards to think about assessments as routine tools that deliver a continuous cycle of feedback to help directors — and the whole board — improve their performance. This can get directors comfortable with the process — with the focus on development, rather than refreshment.



Set clear expectations upfront on the process and performance criteria. Sometimes this step can be as valuable as the actual feedback: the board is collaboratively discussing expectations that members have of one another, and directors agree to these expectations before any assessment tools are used.



Make sure board leadership is strong. The board chair or lead independent director generally steers the process, working in collaboration with the nominating/governance committee. The board chair or lead director should be prepared for hard conversations with directors about performance issues, and for monitoring each director's progress. It's also important that feedback is continuous, not just during the formal assessment process.



What else can boards do to make assessments successful?

Further steps that boards should consider taking include:

- **Recognize the need for different criteria for individual board members.** Since each director plays a unique role and brings a different value, a universal set of criteria may be confusing or ineffective. Assessments need to consider that individual directors are brought onto the board for various reasons and bring different competencies.
- **Start with director self-assessments.** This can help get directors comfortable with self-reflection and the assessment process, helping build self-awareness, and can form the basis of a director's development plan. Boards can then look to pair the self-assessment with peer assessments when the timing is right.
- **Formalize the process for conducting individual director assessments.** The best time to start is often after the board has added new board members, and it's important to make the exercise routine rather than ad hoc. The process should be tailored to the board's culture and dynamics, with a process owner assigned — often the nominating/governance committee.
- **Establish goals.** This is an important step to remind directors that the assessment's main purpose is not to remove directors but to further develop their skills. The feedback from the assessment process should be turned into director strengths, opportunities and goals.
- **Put the onus on individual directors.** Honing in on each individual's value to the board leaves it up to directors to reflect on whether they are still relevant or should move on and give their spot to someone else who may be better equipped.



Conclusion: it's time for boards to do the hard work

Directors, individually and collectively, should view individual assessments as an opportunity to evaluate board culture and dynamics and gauge whether the structure encourages open discussion. These assessments get directors thinking about their performance — where they can add value, how they can leverage their unique experiences and when it may be time to step away from the role. Assessments are important feedback mechanisms to aid directors' growth and maximize their contributions to the board and the company.

Appendix

Example individual director assessment survey

Personal performance — does the director measure up?

This questionnaire indicates the principal areas that a director's effectiveness review should cover. While use of this tool will provide helpful information, additional value may be gained by distributing the tool more widely to obtain the views of others (e.g., fellow directors, management and others with whom the director interacts).

Questionnaire

The questionnaire is provided for use in assessing a director's personal performance. You may find it useful to rate the extent to which he/she complies with each statement, on a scale where:

- 5 = All the time/fully satisfactory
- 4 = Most of the time/above average
- 3 = Some of the time/average
- 2 = Occasionally/below average
- 1 = Hardly ever/poor

If the practice is not being followed or if the rating is below what is considered acceptable, space is provided to note steps the director should take to raise performance.

Practice	Rating					
	1	2	3	4	5	N/A
Setting strategy The director has a clear understanding of the company's core business and participates in setting its strategic aims.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Comments:						
Enabling performance The director assists in ensuring that the necessary financial and human resources are available for the company to meet its objectives.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Comments:						
Setting and applying values The director supports the company's standards and values, enabling him/her to contribute to setting the tone at the top.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Comments:						
Reviewing risk and control frameworks The director's approach to reviewing risk in the organization is open and questioning.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Comments:						

Practice	Rating					
	1	2	3	4	5	N/A
Demonstrating courage and integrity The director is prepared to stand firm, challenge constructively and lead by example on ethical matters.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Comments:						
Holding themselves personally accountable The director is prepared to stand firm, challenge constructively and lead by example on ethical matters.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Comments:						
Attending board meetings The director regularly attends meetings.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Comments:						
Preparing appropriately The director prepares appropriately in advance of meetings.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Comments:						
Participating actively The director actively participates in robust and probing discussions during and between board meetings.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Comments:						
Understanding individual contributions The director recognizes the role that he/she and each of his/her colleagues is expected to play.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Comments:						
Bringing the right director skills The director has the appropriate skills and experience for the role.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Comments:						
Understanding the business The director makes an effort to get to know the business.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Comments:						

Practice	Rating					
	1	2	3	4	5	N/A
Devoting sufficient time to the role The director has sufficient time to devote to the role.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Comments:						
Staying flexible The director anticipates and embraces change and reinforces the positive aspects of change to others.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Comments:						
Communicating with impact The director communicates with impact, seeking to understand others' points of view and negotiating/ influencing as appropriate.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Comments:						
Demonstrating business acumen The director makes sound decisions and exercises good judgment in debating board agenda items.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Comments:						
Managing professional development The director takes responsibility for his/her ongoing professional development.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Comments:						
Managing relationships with senior leadership The director ensures channels of communication with management are kept open.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Comments:						
Managing relationships with others externally The director understands the perspectives of major shareholders and other stakeholders as appropriate to his/her role on the board.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Comments:						
Liaising with the company secretary The director utilizes the support of the company secretary as appropriate.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Comments:						



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