

Making the Grade: Do Your Directors Deserve an A+?

Conducting Board Assessments and Peer Evaluations

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Board assessments and peer evaluations are best practices for community banks, resulting from the Sarbanes-Oxley Act of 2002. Unfortunately many board members are unclear on the process, and chief executive officers can be leery of the outcome. This article outlines how to conduct board assessments and peer

evaluations in a way that improves the productivity of the board and eliminates some of the mystery.

What are a board assessment and a peer evaluation? A board assessment is an evaluation by each board member regarding how well the board is doing its job of overseeing the operations of the bank and fulfilling its responsibilities. The results of the board assessment should be summarized in such a way as to obscure individual board member comments, and should be presented in writing to the board.

A peer evaluation, on the other hand, is an evaluation of each individual

director's performance on the board. The results also should be summarized to obscure individual board member comments and should be presented in writing to the individual board member. The chairman of the board often discusses board member evaluations with each board member. The peer evaluations should be kept confidential and not discussed with the full board.

Why perform board assessments and peer evaluations? Board assessments and peer evaluations are performed in order to improve overall corporate governance processes, to enhance board communication and to improve decision-making of the board. The results of board assessments can also assist the nomination committee in identifying potential board members whose skill sets complement the existing board.

Peer evaluations can improve each board member's effectiveness and can identify training needs for each board member.

The board assessment and peer evaluation process may be extended to the board committees to improve committee member performance and communication among committee members, as well as to improve decision-making of each committee.

What are the first steps? The board of directors should first be educated on the process of conducting board assessments and peer evaluations in order to set expectations, thus ensuring a successful outcome. The board should then decide if it wants to conduct a board assessment, peer evaluation or both. Next the board should decide whether it will need external assistance, or if someone internally is capable of conducting the assessments and evaluations.

ABOUT THE AUTHORS

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Board assessment questionnaires are then formulated to allow board members to rate such topics as:

- Alignment of board's actions with the bank's strategic initiatives;
- Board participation in the planning process;
- Corporate governance processes;
- Level of communication among board members;
- Effectiveness of board committees.

Peer evaluation questionnaires focus on each individual director and evaluate such areas as:

- Leadership style;
- Value as a team member;
- Teamwork;
- Quality of judgment;
- Communication with other board members;
- Level of participation.

The process should be constructed

to be as non-threatening as possible. Many times boards seek external assistance to conduct the board assessments and peer evaluations to help remove biases and prejudices from the process and to maintain confidentiality of results.

Board assessments and peer evaluations are best practices that can transform board behaviors and board dynamics that ultimately improve the overall corporate governance of the bank. ♦

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Does your institution utilize an appraisal checklist tailored to agricultural commercial properties? (13 responses)

- 23% Yes
- 69% No
- 8% No, but planning to implement within six months

Who in your institution makes decisions on donation requests? (64 responses)

- 59% An individual
- 8% Two people
- 22% A committee of three or more
- 6% A foundation affiliated with the bank
- 5% Other

Does your institution provide additional community outreach during the holiday season? (55 responses)

- 4% Yes, food for needy families/individuals
- 0% Yes, clothing/blankets for needy families/individuals
- 0% Yes, toys for children
- 50% Yes, combination of the above
- 33% Yes, other
- 13% No holiday-specific community support beyond regular outreach during the calendar year

For personnel in your institution who use mobile phones for business calls, what kind of phone support do you provide? (38 responses)

- 32% Cell phones paid for by the bank
- 2% Track phones paid for by the bank
- 13% Reimburse employees for use of their personal phones
- 29% Mixture
- 24% N/A - No employees are required to make business calls from mobile phones

Each week a topical question is posed to IBA members through the Association website and through IBA E-News, an electronic newsletter. To suggest a question for Insta-Poll, please contact Susan Clark at 317-387-9380, e-mail: sclark@indianabankers.org. Please note that Insta-Poll does not represent statistically accurate survey results. IBA members in search of specific information from peers are invited to enroll in IBA-member ListSers.



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