

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

Conducting Board Assessments and Peer Evaluations

CATHERINE A. GHIGLIERI
Ghiglieri & Company

JEWELL D. HOOVER
Hoover and Associates LLC

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

Catherine A. Ghiglieri is president of Ghiglieri & Company, Austin, Texas, and co-author of *The Ultimate Guide for Bank Directors*. A former Texas banking commissioner, she is co-founder of The Bank Directors' College. Ghiglieri has more than 25 years of bank regulatory experience, including 18 years with the Comptroller of the Currency. She earned a bachelor's degree from the University of Notre Dame and a JD from Georgia State University. The author can be reached at 512-329-5101, e-mail: cathy@ghiglieri.com.

Jewell D. Hoover is president of Hoover and Associates LLC, Charlotte, N.C., and co-author of *The Ultimate Guide for Bank Directors*. A former deputy comptroller for the Office of the Comptroller of the Currency, she is cofounder of The Bank Director's College. Hoover has more than 35 years of bank regulatory experience. She earned a bachelor's degree from West Virginia State College and a master's degree from the West Virginia College of Graduate Studies. The author can be reached at 704-540-2410, e-mail: jhoover5@carolina.rr.com.



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. ♦

INSTA-POLL

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 ListServs.

Consultants to the Financial Industry
Young & Associates, Inc.

Liquidity Planning

Strategic Planning

Regulatory Assistance

Stock Valuations

Capital Markets

Expansion & De Novo Bank Charters

Internal Audit

Information Technology

Recruitment & Human Resources

Lending & Loan Review

Compliance

Policy Development

1.800.525.9775
younginc.com

BANKERS WORKING FOR BANKERS