EY Center for Board Matters

Accelerating board performance
The importance of assessments
Introduction

This document is intended to provide boards with useful tools, tips and considerations for increasing board effectiveness through an enhanced approach to board assessments. It is based on our observations, conversations with the institutional investor community and experience working with boards on their self-assessments. We hope this guide is helpful to boards as they look to optimize their own performance. We organized this document into the following sections:

03  Board assessments: a strategic opportunity in a complex environment
06  Balancing it all: managing multiple priorities and stakeholders
09  Key elements of board effectiveness: what to assess
12  Different approaches: finding the right way to assess your board
16  The importance of board dynamics: working cohesively as a team
18  After the board assessment: making plans for positive change
20  Example board evaluation
Board assessments
A strategic opportunity in a complex environment

Stakes are high when it comes to board effectiveness—and are rising even higher in today’s dynamic corporate governance landscape. Having the right combination of directors who work as a team and provide the skills and perspectives aligned to the company’s strategic goals and risk oversight needs is a key strategic asset. The goalpost of having the right mix of skills, experience and perspectives in the boardroom is always in motion as a company’s strategies, challenges, business environment, board and individual director performance, and stakeholder expectations evolve.

Progressive boards view assessments as a vital tool for maximizing their effectiveness. Assessments can help identify performance issues and facilitate the development of approaches to addressing those issues. Board evaluations can also bolster succession planning by identifying gaps in the perspectives and specialized skills necessary to a company’s changing needs. At the same time, assessments can help companies identify when changes to board composition are warranted to strike a balance of fresh perspectives and institutional knowledge. Due in part to assessments, boards are increasingly looking to recruit directors who are global and diverse (not only in skills and experience but also in terms of gender, ethnicity and other aspects), and/or who have experience in technology, social media and cyber-related areas.

Institutional investors, too, are paying more attention to board effectiveness—and they have a growing voice in the boardroom. Their rising influence is based on long-term shifts in the governance landscape, including investor-company engagement; majority voting and the concurrent shift from staggered to annual board elections; rising hedge fund activism; and, more recently, proxy access. Today, if boards are not effective and do not get their composition right, an investor may advocate change.

Investors are more closely scrutinizing a range of board-related issues, such as board composition and refreshment, and they are increasingly viewing assessments as critical contributors to board and director effectiveness. As part of these efforts, some investors are seeking more information about board evaluations. At the same time, policymakers are seeking more effective disclosure on key areas of interest for investors (see “Board assessment-related communications and investor perspectives” on page 5). In response, some companies are voluntarily disclosing more information about their board assessment processes.

Board assessments provide a strategic opportunity for companies in this context of increased scrutiny of board composition and effectiveness by companies and investors. Through the use of assessments, boards may better evaluate and better understand the functioning of the full board and confirm that individual director competencies are aligned with corporate priorities and chief areas of stakeholder concern—and are fully understood, recognized, utilized and valued.

Assessments go beyond simply confirming that the board members have the right skills and experience; they also help boards evaluate how effectively they are working together to manage all of their responsibilities, including strategic considerations, risk oversight, succession planning and capital allocation.

Strategic benefits of a robust board assessment process may include:

- **Providing** clarity on the roles of directors and the board as a whole, accelerating decision-making and avoiding unnecessary director conflicts
- **Strengthening** understanding of business operations, customer experience and people management practices as the organization evolves
- **Identifying** gaps in knowledge and expertise related to rapid changes in technology, including digital, cyber and other associated risks and opportunities for the company
- **Developing** deeper understanding of the sector or industry dynamics and competitive threats locally and globally
Testing the board’s understanding of key shareholders’ views on the company’s strategy and governance, and its preparedness for potential challenges from activist investors

Identifying process management improvements to enhance effective board preparation, meeting management and communications

Fostering alignment and agreement on company purpose and strategy, easing a board’s ability to prioritize issues and set the near-term agenda

Protecting against weak team dynamics that fracture boards and lead to power struggles

Regulatory considerations

Regulators and other policymaking institutions around the globe are demonstrating an interest in the board assessment space. In the US, NYSE Listing Company Manual, Section 303A.09 mandates that the boards of directors of all NYSE-listed companies conduct an annual self-evaluation to determine whether the board and its committees are functioning effectively. While NASDAQ does not have similar requirements, a number of its boards voluntarily conduct self-assessments, viewing this practice as an example of good governance. There are requirements and/or guidance related to board assessments in several global markets, including the United Kingdom, Germany, Canada, Australia, Japan and Singapore, and they generally call for performance evaluations of the board.1

Requirements and guidance alone cannot improve board assessment processes, and there is no “one-size-fits-all” approach. Organizations should shape their board assessment to address their unique circumstances and considerations, and view board assessments as an opportunity for strengthening the governance framework, adding value to the organization and promoting investor confidence.

Key takeaway

Having the right directors in the boardroom working together effectively is a real strategic asset to the company. Board assessments are the key to getting there.
Board assessment-related communications and investor perspectives

U.S. Securities and Exchange Commission (SEC) Chair Mary Jo White has described the role of the agency as making sure that “shareholders are provided with the information they need” and in the board assessment space, the largest and most vocal institutional investors are increasingly engaging with companies behind closed doors to discuss board composition — how the board’s current mix of skills, expertise and insights positions the company to best address its ongoing and long-term priorities. Some of the country’s largest pension funds also recently called on the SEC to require companies to provide more disclosure on director qualifications, asking for more information on ethnicity, race, gender, skills, experience and other attributes.

At a minimum, investors seek confirmation that the directors they elect to represent their interests on the board are doing their jobs effectively. For many investors, who are keeping a close eye on board refreshment efforts, gender diversity and other elements of board composition, evidence of rigorous board evaluations can be a key part of such confirmation.

While it is not common practice for US companies to provide substantive disclosure on their board evaluations, some investors would like to see disclosure enhanced. Many investors acknowledge the litigation risks around disclosing substantive details but express an interest in increased transparency around the process of evaluations. For these institutional investors, high-level disclosure can provide helpful insights. Examples include the frequency of the evaluation process, who leads it, whether the process is questionnaire- or interview-based and the extent to which an assessment may include the use of 360° feedback or third-party facilitators.

Some companies go further by disclosing key areas of interest that the assessment process focused on, the process of reporting results and what (high-level) actions were taken. The extent that boards can comfortably disclose any changes taking place as a result of the evaluation can help confirm to external stakeholders that the process is robust and adds value.
Balancing it all
Managing multiple priorities and stakeholders

In the current governance landscape, boards are facing ever-increasing stakeholder expectations regarding transparency, accountability and disclosure. Boards must juggle the sometimes competing priorities of strategic insight; management oversight; culture and governance; and financial, risk and compliance considerations — all with an eye toward the sometimes competing interests of multiple stakeholders.

When boards manage their priorities effectively, benefits include:

- Minimal or no gaps in risk response, including to previously unidentified material risks
- Robust, informative and reliable reports from management, enhancing the quality and speed of decision-making by the board and management
- Increased organizational efficiency with reduced cost

### Board priorities and challenges

#### Strategic insight

**Priorities:**
- Provide insights on strategic challenges, priorities and other considerations.
- Approve and oversee the company’s strategic plan.
- Approve major corporate transactions, such as acquisitions.

**Potential challenges:**
- Board members do not agree about role in strategy setting.
- The right combination of skills and experiences are not included and utilized by the board.

#### Management oversight

**Priorities:**
- Hire, evaluate, compensate and fire the chief executive officer (CEO).
- Lead CEO succession planning.
- Determine the policies and practices around the compensation — and leadership development — of executive officers.

**Potential challenges:**
- The succession plan is inadequate or not reviewed and monitored on an ongoing basis.
- Compensation is not linked to performance.
- Incentives are disconnected to short- and long-term strategic goals.
Culture and governance
Priorities:
• Set the “tone at the top” for management, employees and increasingly, partners throughout the supply chain.
• Make sure the board and committees are functioning well.
• Determine the appropriate board and committee structure and make sure the board’s composition is aligned with the company’s strategies and challenges.
• Represent – along with the CEO – the “face” of the company with regard to key stakeholders, including investors.

Potential challenges:
• The board members’ expectations are not aligned with each other or with the organization’s goals.
• Governance procedures are outdated.
• Board assessments do not occur or are too limited in scope.
• There is inadequate rotation or orientation of long-tenured and new members.
• Key processes (such as strategic planning and succession management) are a static, one-time process, without a cadence.

Financial, risk and compliance
Priorities:
• Verify compliance with laws and regulations.
• Monitor performance, risks and risk mitigation policies and practices.
• Oversee the integrity of published financial results.
• Identify emerging risks (e.g., cybersecurity, human capital) and establish appropriate risk frameworks.

Potential challenges:
• Appropriate levels of information are not shared and utilized by the board.
• Oversight of risk management is delegated and not addressed appropriately by the board.
• There is little appreciation or understanding of the expectations of regulators or investors.

Key takeaway
The effective board is neither a rubber stamp nor imperial.
While boards have the option of performing the “bare minimum,” doing so misses an opportunity to enhance performance and transform a good board into a great one.
Key elements of board effectiveness

What to assess

The definition of roles, responsibilities and expectations is an important component of evaluating board performance. While boards have the option of performing the “bare minimum,” doing so misses an opportunity to enhance performance and transform a good board into a great one. An “effective board” needs to be considered in terms of the business, organization and market dynamics. In carrying out their oversight duties, some boards may focus primarily on compliance. However, at a higher level, boards are deeply involved with company strategy and implementation. These boards are more results-oriented, and they set annual and longer-term objectives that are outcome-based. And even more progressive boards use performance evaluation tools not only to assess their own performance against a certain set of metrics and identify areas of improvement – but also to benchmark their performance against leading practice. There are several elements of board effectiveness to consider, which fall into three categories: structure, people, and process and information.

<table>
<thead>
<tr>
<th>Elements of board effectiveness and what’s being assessed</th>
<th>Structure</th>
<th>People</th>
<th>Process and information</th>
</tr>
</thead>
<tbody>
<tr>
<td>Board/committee structure and processes</td>
<td>• Effectiveness and appropriateness of corporate governance structures; frequency of meetings; reporting lines</td>
<td></td>
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</tr>
<tr>
<td>Board/committee composition</td>
<td>• Skills, experience and diversity (various forms) relative to company’s strategic direction and key businesses; robustness of nominating process, succession planning and board refreshment considerations</td>
<td></td>
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</tr>
<tr>
<td>Legal entity and group structure</td>
<td>• Relationship of local entities to parent and to group</td>
<td></td>
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<tr>
<td>Roles and responsibilities</td>
<td>• Effectiveness of board and committee leaders; effectiveness of oversight of management; level of challenge by non-executive directors; engagement on important company matters at the oversight – rather than management – level; oversight of strategy and business planning process (including demonstrating good understanding of strategy and staying focused on the relevant areas); remuneration structures</td>
<td></td>
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<tr>
<td>Behavior and culture</td>
<td>• Evidence of strong culture and behavior set by the board – “tone from the top”; board functions and team dynamics</td>
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<tr>
<td>Director training and development</td>
<td>• Technical training programs; director education development plans (for onboarding purposes and to enhance directors’ ability to serve)</td>
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<tr>
<td>Oversight of control functions</td>
<td>• Oversight of control functions (risk, compliance, internal audit, actuarial), including three lines of defense model</td>
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<tr>
<td>Oversight of reporting, disclosure and performance</td>
<td>• Effectiveness of information flows between board and management; reporting and escalation of issues from committees; top-down communication from board and committees; disclosure of board-related information as appropriate based on requirements and investor expectations; rigorous monitoring of company performance and key value drivers</td>
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</table>

Key takeaway

To be most effective, the board assessment process and questions should be customized to reflect company-specific needs and circumstances.
To evaluate a board’s effectiveness in executing its responsibilities, some boards choose to perform a “deep dive” into each element. Some focus on specific elements such as the cultural and behavioral aspects of the board as a whole, as well as on an individual director basis. However, improving board effectiveness goes beyond imposing a structure, requiring attendance at board meetings or implanting independent people. To evaluate the board’s effectiveness in organizations where boards have an oversight role, the following four categories of board practices need to be examined, at a minimum:

1. **Structural — board composition and skills:**
   The board should evaluate whether the composition of the board goes beyond what is prescribed by regulators and also considers elements of diversity, experience, specialized skills and expertise.

2. **Strategic and performance orientation:** It is important for the board to demonstrate a good understanding of the organization’s strategy. Board members should rigorously monitor the company’s performance and understand any factors that have significant bearing.

3. **Governance and organizational focus:** Boards should be able to engage on important company matters at the oversight level, not management level.

4. **Board functioning and team dynamics:** The board should consider the manner in which directors interact with one another and with management while also considering the framework and process of board conduct.

Refer to page 20 for a sample qualitative evaluation that can be used when examining these four areas.

**Key takeaway**

Board evaluations should not simply serve as a compliance exercise. Ongoing review and reflection of board performance and dynamics can contribute to organizational, board and individual director improvements.
It is important that an independent board member be appointed to lead the process from beginning to end — even if an external firm is facilitating and aggregating responses from board members.
Different approaches
Finding the right way to assess your board

A commitment to regular and robust evaluations can help a board to quantitatively and qualitatively assess its performance, identify strengths and opportunities for improvement and evaluate progress over time. Evaluations also can help boards to refine current and forward-looking performance goals.

Many boards have traditionally followed a checklist approach to self-assessments, but an emerging trend is to use evaluations as a thought-provoking process — one that pushes boards to actively reflect on the current environment and consider new ways to optimize function and performance. This approach focuses on strategic, “big picture” questions aimed at sparking constructive, focused dialogue rather than the more limited approaches where ratings and “yes/no” answers dominate. (See “Example board evaluation” on page 20 for samples of thought-provoking questions and “Three approaches to board evaluation” on page 14 for commonly used approaches used to conduct assessments, including surveys and group evaluations.)

To be most effective, the board assessment process and questions should be customized to reflect company-specific needs and circumstances (such as company size, sector, performance and management). Board members also need to decide the best approach based on company and board culture, as well as current and future expected circumstances.

A successful evaluation of the board should include consideration of:

- **What is being measured** — objectives and competencies that the board wishes to assess
- **Who conducts the evaluation** — an independent board or committee leader, management representative who supports the board (such as the general counsel) or external third party
- **Who is evaluated** — board, individual directors, committees, board and committee leaders
- **Who participates in the evaluation process** — directors, management and others who regularly interact with the board (such as the corporate secretary, CFO, internal audit, human resources and outside counsel)
- **How the evaluation is conducted** — electronic survey tool, written questionnaire, orally facilitated individual interviews, checklist form and/or open answers
- **How often is the evaluation completed** — annually for board, biannually (or more or less frequently) for committees, biannually or triennially (or more or less often) for third-party facilitated assessments
- **How the board discusses and addresses the results** — who on the team (internal and/or external) is responsible for developing a process for evaluating responses and aggregating results, facilitating discussion among directors and developing an implementation plan for changes?

In addition, it is important that an independent board member be appointed to lead the process from beginning to end — even if an external firm is facilitating and aggregating responses from board members. The continuity and independent perspective offered by such a structure helps support the importance and broader objectives of the board assessment process. Also, the advice of counsel should be sought for approach, access and record retention procedures.

Accelerating board performance
Additional ways to make a good process better

An important component of board evaluations is full candor during the self-assessment process. While there are different ways for this to be achieved, three approaches are emerging as leading practice: conducting individual and peer assessments, 360° feedback and the use of third-party facilitators.

**Individual and peer assessments:** While some form of board assessment is required for almost all public companies due to listing or other regulatory requirements, some organizations also evaluate committees and individual directors. Performing individual and peer assessments can be a valuable way to enhance overall board performance, foster a sense of individual accountability and allow any gaps in knowledge, skills and behavioral attributes to be better addressed. Peer assessments provide a mechanism for directors to enhance their own performance and address and remember any peer performance issues.

**360° feedback:** Feedback from others outside of the boardroom can provide invaluable perspectives into the board’s performance. Potential participants in a 360° session may include shareholders on how they view the directors and board (especially where directors meet with shareholders/investors), and employees and others who have significant interaction with the board and its committees—such as the corporate secretary, chief financial officer, chief information officer, human resources director and external counsel. In particular, one of the most challenging aspects of a board’s role is to both oversee and challenge, while also cohesively working with, coaching and building strong rapport with senior management (especially the CEO). Great boards set and evaluate management’s performance, while supporting and motivating them. Boards should evaluate how well they are performing this role by incorporating management feedback as part of the evaluation process.

**External facilitators:** Third-party facilitators may offer an “outside-in” perspective that can be helpful for boards to hear. This type of perspective can, in some circumstances, help a board to address challenges such as underperforming directors. In addition, some directors may be more likely to elaborate fully on issues and bring up potentially contentious matters with a third party. Some third-party facilitators may also bring to the table perspectives on leading practices, allowing boards to benchmark against peers and identify additional areas of improvement.

Given the litigious environment in some jurisdictions and the continuing heightened scrutiny of directors, boards should verify that legal counsel is involved with the board assessment process so that appropriate legal safeguards and protocols are in place to protect the board and the company.
Three approaches to board evaluation

The most effective assessments use a combination of these methods.

<table>
<thead>
<tr>
<th>Description</th>
<th>Quantitative (survey)</th>
<th>Qualitative (personal interviews)</th>
<th>Qualitative (group self-assessment)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Board members complete a written survey, rating board performance on a numeric scale; results are discussed by the full board.</td>
<td>External facilitator, general counsel, chair of the board or some other individual conducts one-on-one interviews with each board member; results are discussed by the full board.</td>
<td>Trained facilitator leads a group discussion of the full board; the session is summarized in a written report for future use.</td>
</tr>
</tbody>
</table>
| Advantages  | • Straightforward, familiar process  
• Convenient  
• Ability to track progress over time  
• Anonymous | • Greater engagement  
• More detailed responses  
• Better understanding of the issues  
• Anonymous | • Highly engaging  
• Interactive and allows for questioning back and forth  
• Generates more consensus around priorities and plans  
• Serves as a team-building exercise |
| Disadvantages | • Can be difficult to determine meaning behind quantitative metrics | • Can take more time to complete  
• Can be more difficult to compare results or set benchmarks over time | • Can take more time to complete  
• Can be more difficult to compare results or set benchmarks over time |

Adapted from Board Assessment: Designing the Process, by Beverly Behan, which appeared in The Corporate Board, December 2004.

**Key takeaway**

Boards need to go beyond compliance with a rigorous ongoing process of self-evaluation, incorporating external facilitators and 360° feedback as part of the assessment process with a heavy focus on qualitative considerations.
Progressive boards view assessments as a vital tool for maximizing their effectiveness.
The importance of board dynamics

Working cohesively as a team

It is widely accepted that boards with strong team dynamics add value to the organization. A highly effective board is one that views itself as a team – one that is assembled to work together with a common commitment to protecting and enhancing shareholder value – rather than a collection of directors possessing an impressive consortium of professional capital but lacking an ability to work constructively together. A challenging group dynamic, despite illustrious names and relevant expertise, can fail to deliver on expectations. Given that research findings indicate that healthy board dynamics enhance company performance and profitability, directors should view the individual and board assessments as a team-building activity to enhance performance focused on assessing interpersonal skills and behavioral attributes. To that end, board assessments should be constructed to help identify areas of dysfunction in the team and any individual director and/or board behaviors that need to be adjusted.

Based on The Five Dysfunctions of a Team by Patrick Lencioni (Copyright The Table Group), high-quality board dynamics include key elements that are interrelated and build upon each other: trust, healthy conflict, commitment, accountability and results. For additional signs of high-performing boards as defined by culture and behavior, see the table below.

It is beneficial for companies to consider board assessments with an eye toward assessing and improving upon team dynamics. They should also link board evaluations to succession planning, as board evaluations can identify gaps that need to be resolved, whether in terms of skills, experience or personality type.

Generally, nominating committees assess board candidates based on breadth of board experience, industry knowledge, leadership and technical expertise. However, interpersonal qualities and behavioral attributes, such as capacity to challenge constructively, intellectual curiosity and conscientiousness, and skills, such as communication, listening and teaming, should be heavily considered during the vetting process of new directors and the renomination process of sitting directors.

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**Signs of high-performing boards**

- Board members say what they think.
- They trust each other enough to call out mistakes and poor performance.
- They challenge each other on plans and approaches.
- They understand and value what each director adds to the collective board and seek advice from each other.
- They offer and accept apologies without hesitation.
- They participate actively in board meetings.
- Problems are discussed and resolved.
- They know that all directors are committed to the success of the team, even if they disagree.
- They know their roles and responsibilities as directors.
- They are disappointed if outcomes are missed.

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**Signs of a dysfunctional board**

- Board members criticize each other behind their backs.
- Aggressive personalities dominate or control the board.
- They place an undue burden on the chairperson as the sole source of discipline.
- They resent board members who have different standards of performance.
- They hesitate to take responsibility outside of their core area.
- They conceal their weaknesses.
- They dread board meetings because they are often not constructive and lead to no positive outcomes.
- They focus on individual goals or act out of self-interest.
- There is no healthy conflict and a heavy “group think” mentality.
- They avoid the white elephant in the room and continually revisit decisions.
- They regularly miss deadlines.
Building the highest-performing team: five fundamentals

In *The Five Dysfunctions of a Team*, Patrick Lencioni focuses on five dysfunctions that can make teams struggle. Based on his model, there are conversely five interrelated elements that make up high-performing teams: trust, healthy conflict, commitment, accountability, and results. In order to enhance team dynamics, boards can consider using this framework to assess the board’s teaming dynamics and determine which of the five foundational areas needs to be improved upon. Boards should evaluate their current state as well as the action steps required to move higher up in the pyramid. It is only through addressing and enhancing each of the elements that a board can aspire to become a high-performing team focused on achieving results.

**Results**
The team focuses on achievement of collective results.

**Accountability**
Directors hold one another accountable.

**Commitment**
There is clarity in goals and a commitment to a plan of action.

**Healthy conflict**
The team engages in healthy conflict and constructive debate.

**Trust**
Trust serves as the foundation; without trust, a team cannot effectively function nor can results be achieved.

**Key takeaway**

Board culture and team dynamics can be crucial factors in whether a board is successful or not.
A key component of an effective evaluation process is the follow-up. The appointed leader of the board assessment process should identify common themes and notable differences, create an anonymous summary of the main findings and schedule a board session — and individual director conversations as needed — to discuss the results. Board members should discuss, agree upon and assign any necessary action items based on evaluation results and recommendations.

It is also important to establish target dates for completion or additional discussion. Examples where additional consideration may be warranted include addressing board skill-set needs, making sure adequate time is allocated to strategy discussions, arranging for outside advisors and/or subject-matter experts to present to the board, evaluating committee organization and assigned responsibilities, and determining the frequency and duration of board and committee meetings.

Individual director evaluations are just as important as board evaluations. Providing peer assessment feedback to each individual director on a one-to-one basis is important. However, addressing the individual director evaluations can be particularly challenging if there are indicators of underperformance from individual directors, especially in the case of long-standing directors. It is important that the appointed leader carefully and appropriately handle such outcomes.

Board members can demonstrate a commitment to doing their best when they actively participate in the evaluation process, openly consider and discuss the findings, and identify and create a plan for positive change to board function and performance.

**Conclusion**

Performance evaluation is a key means by which boards can recognize and correct corporate governance problems, capitalize on the board as a strategic asset and add real value to their organizations. Board assessments can contribute significantly to performance improvement at four levels: the board as a collective team; board/committee leadership; committees; and the individual director level. Boards that commit to a regular evaluation process find benefits across these levels in terms of improved leadership; increased clarity of roles and responsibilities; improved teamwork; increased accountability; better decision-making; enhanced communication; and more efficient board operations.

**Key takeaway**

Performance evaluation is a key means by which boards can recognize and correct corporate governance problems and add real value to their organizations.
Individual director evaluations are just as important as board evaluations.
Example board evaluation

The following are some questions that could be asked of directors in a board evaluation. The questions are intended to be asked by a lead facilitator of individual directors. While some questions may allow for yes/no answers, directors are encouraged to elaborate when presenting their views. These questions could also be asked of others who regularly interact with the board, such as the corporate secretary, chief financial officer, internal audit director, human resources director or external counsel. In some cases, questions may be asked of external stakeholders, such as key institutional investors, to gain their perspective.

### Discussion questions

<table>
<thead>
<tr>
<th>Structural: board composition and skills</th>
<th>Goal of discussion questions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Are the roles and responsibilities of the board, committees and individual directors clearly understood by all parties?</td>
<td>Consider how to increase clarity of roles and responsibilities for roles of directors and board as a whole in order to enhance decision-making and avoid unnecessary director conflicts. Are there particular matters that should be handled by the full board versus at the committee level?</td>
</tr>
<tr>
<td>Has the board identified the experience and qualifications most important to the company’s forward-looking strategy? How many of the independent board members are familiar with the company’s industry? With key operational areas? With emerging risks and trends, such as cybersecurity? With activist investors and institutional investor groups?</td>
<td>Consider how the company’s forward-looking strategy is or is not reflected in board composition. Look for gaps in board representation. Does board size need to be reconsidered?</td>
</tr>
<tr>
<td>Does the board include the appropriate balance and breadth of backgrounds, skills, diversity, experience and expertise to support strategy oversight, serve as a resource to management and fulfill key committee needs? How are key stakeholders reflected in board composition? How do key investors define diversity, and what are their priorities in this area? Does the balance of director tenures provide for smooth transitions?</td>
<td>Consider board composition from an outsider’s perspective. Where might there be opportunities for change or refreshment?</td>
</tr>
<tr>
<td>Does the board devote adequate time to discussing its composition, appointment process and board succession planning? Is there a robust and ongoing process for assessing potential candidates based on the skills, experiences and backgrounds required to support the company’s strategic goals?</td>
<td>Consider the relationship between individual expectations and views around board refreshment and tenure. Does the board set appropriate expectations around board refreshment and director tenure? Is there disconnect between policy and views on how this policy would be applied to individual directors? Be aware that directors may be sensitive to the potential for being unfairly targeted.</td>
</tr>
<tr>
<td>Do the board members have adequate time and resources to accomplish their objectives?</td>
<td>Is there sufficient secretarial and administrative support provided to directors?</td>
</tr>
</tbody>
</table>

**Structure**  **People**  **Process and information**
## Discussion questions

### Strategic and performance orientation

- **Do you understand the company’s strategy, key performance drivers and most significant risks? Do you believe the board has a common understanding?**
  - **Goal of discussion questions:** Assess directors’ understanding of the company’s business — individually and as a group. What areas require more attention? Has the company evaluated external, preventable and strategic risks?

- **Can you articulate the company’s strategy in two sentences?**
  - **Goal of discussion questions:** Identify similarities and differences in responses. Do certain themes emerge? If so, are new opportunities or risk areas for board or specific committee consideration becoming apparent?

- **Does the board spend appropriate time discussing strategy, risk and related matters (e.g., disruptive innovation and technologies, competition, market changes and challenges, regulation and policy impacts)? If so, in which areas?**
  - **Goal of discussion questions:** What’s the relative balance of time spent on compliance-related matters and addressing immediate needs versus considering ways the board can “go beyond”? Consider new ways to provide more time toward key topics (e.g., process changes, functional changes, technology use), and consider similar changes to streamline time spent on compliance.

- **Does the board have processes in place to evaluate worst-case scenarios and scenario planning when evaluating strategic risks? Is the board’s crisis management plan adequate or are there areas that need improvement?**

### Governance and organizational focus

- **Does the board receive feedback on and understand how its institutional investors view its governance practices?**
  - **Goal of discussion questions:** Is there an ongoing process for connecting with key institutional investors on governance topics? Consider reaching out to investors, the corporate secretary, investor relations and others for their perspective on the relationship between the board and investor community.

- **Is corporate culture viewed as a board priority? Does the board ask the right questions about the culture of the entity and tone at the top? How does the board provide oversight of corporate culture? How is culture evaluated and monitored by the board?**
  - **Goal of discussion questions:** Assess how well the board collectively monitors corporate culture.

- **Is the board’s use of outside advisors and experts and related materials sufficient? Where are the information gaps?**
  - **Goal of discussion questions:** Assess whether the board is comfortable with where it is receiving its information — and confident in the quality of that information. Is the board getting information from sources outside of management? For what situations or business or operational areas should the expertise be brought in-house — and how? Consider ways for the board to discuss these topics more fully in a separate process.

  - **Has the board re-evaluated its directors and officers insurance policy for sufficiency?**
## Discussion questions

### Governance and organizational focus (continued)

### Management development and succession

- How can dynamics between the board and management be improved? Do the board and management have a strong working relationship based on cooperation and collaboration?

- Does the board provide regular feedback to the CEO? How would you characterize the relationship between the independent board chair/lead independent director and the CEO? Between committee chairs and the CEO?

- Are board processes in place to support both long-term and emergency succession planning? What aspects of the existing process need more attention, e.g., ongoing evaluation of needed skill sets, development of senior executives?

- Does the board devote appropriate time to discuss management succession, including as strategy shifts? Is the board’s schedule for considering succession timed so that it supports potential shifts in strategy?

- Does the organization have a “talent intelligent” board that is knowledgeable about the organization’s talent strategy, risk, and human capital challenges? Does the board have a process for engaging, assessing and developing internal candidates at least two ranks down? How robust is this process? How does the board mentor its senior executives?

- Does the executive compensation program include incentives tied to succession planning and leadership development? Are these opportunities also available to senior executives? Is there a high pay differential between the CEO and other named executives?

### Board functioning and team dynamics

- How effective are the board meetings? Are the frequency, duration, format, timing and related logistics adequate to create an effective environment?

- How effective are the board reporting packages that are provided to board members? Are the full board, committee and individual directors kept informed on a timely basis on all salient matters? Are the meeting minutes clear and accurate and provided in a timely manner? Are action items arising from meetings followed through in a timely manner?

## Goal of discussion questions

### Governance and organizational focus (continued)

- How constructive and dynamic is the relationship between the board and CEO? Are there particular areas where change is needed? If so, where? Consider modifying existing communication processes, providing more director education opportunities and other changes.

- Determine if the board’s succession planning processes are sufficient or require more support. Consider areas that require more attention.

- Assess whether additional meetings are needed to provide that succession planning is in sync with strategy.

- Determine whether there are appropriate and sufficient opportunities and channels for the board to connect more closely with senior executives. Evaluate the talent pipeline in the organization for senior executives and future leaders of the organization. Is the pipeline progressing? Are the development opportunities for management sufficient to appropriately develop the talent pool?

- Assess whether long-term compensation programs support internal promotions, and build a deep bench for top leadership positions. Consider whether high pay differentials could create challenges in connection with internal promotion, retention and recruiting efforts.

- Are meeting materials sufficient and provided in a timely manner to allow directors adequate time to prepare and give proper consideration?
### Discussion questions

**Board functioning and team dynamics (continued)**

- Does the board have appropriate access to and interaction with management, including quality, format and timeliness of materials?

- Is a summary of key committee discussions appropriately reported to the full board? If not, what are the stumbling blocks? What potential workarounds should be considered?

- Does the board have input into meeting agendas? How much of the current agenda is defined by “have-tos”? Is there sufficient flexibility in the current process to allow for adequate coverage of last-minute emerging issues?

- Are discussion and debate at meetings open, rigorous, effective and constructive? To what extent are the acknowledged experts (whether committee members or individual directors) questioned?

- How can the board improve upon its team dynamics? Is there a sense of camaraderie among the board and its directors? How can the interactions between the directors be improved? Are there any board or individual director behaviors that should be corrected or remediated in order to enhance the group dynamics? Are there any individual directors who have a negative impact to the team dynamics?

- How would you evaluate the chairman’s leadership style? Are there any areas of improvement for the chairman’s leadership style? Does the chairman foster an environment of mutual trust, cooperation and collaboration among the directors? Does the chairman set a good example and tone at the top for the board? Does the chairman create an environment where directors can constructively challenge and effectively manage dissent?

- Are the board and individual board members satisfied with professional development activities that are available? Do you feel adequately informed and educated in terms of the business environment, emerging risks and regulatory matters?

- Are the onboarding efforts for new committee or new board members sufficient? Do the onboarding efforts provide sufficient clarity in areas such as roles, responsibilities, expectations, overview of the organization and strategic insights?

- Does the board have processes in place to evaluate and enhance its effectiveness on an ongoing basis? Are evaluations performed at the board, committee and individual director level?

### Goal of discussion questions

- Consider the extent to which board members feel empowered or lacking knowledge and influence in key areas. Consider new ways to enhance access and interaction, e.g., process changes, functional changes, technology use.

- Consider boardroom dynamics, and consider elements from the five dysfunctions of a team. Are there any particular elements or team dysfunctions that the board as a team should focus on? Are challenging questions largely limited to one director? Do dissenting directors have time to raise questions and follow up as needed? Consider areas where more discussion is needed. Also consider modifying existing communication processes, as well as providing more director education opportunities and other changes.

- Are the professional development programs and activities provided to board members timely and sufficient?
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**Endnotes**


2. See A Few Observations on Shareholders in 2015, SEC Chair Mary Jo White, Tulane University Law School, March 2015.

3. CalSTRS, CalPERS and others want more disclosure on race, ethnicity and gender, IR Magazine, April 2015.

4. For more on what proxy statement disclosure enhancements investors want to see around board assessments and other governance topics, see 2015 proxy insights: optimizing proxy communications, EY Center for Board Matters, March 2015.


7. Ibid.

8. Ibid.

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