Evaluating the Board of Directors
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OCCD Session II
March 28, 2005

Importance of Board Evaluation
- Check progress against mission and goals
- Gives members a meaningful measure of accountability
- Allows for a check of strengths and weaknesses
- Emphasizes the accomplishments of the board
- Provides a "yardstick" with which the goals of the coming year can be measured
- Encourages teamwork
- Gives a feeling of accomplishment

Why Evaluate the Board
- A board evaluation should provide guidelines for effective board of director performance.
- Should answer the question, "Are we as a board contributing to the cooperative's ability to meet its purpose?"
No Excuses!

- Boards make excuses about not performing their annual board evaluation
  - Difficulty
  - Awkward
  - Unpleasant
  - Paperwork
- However, to not perform an evaluation is to put your board at risk

Guidelines for Board Appraisal

- Evaluate the board as a whole
  - The evaluation is not a personal performance review
- Be Honest
  - An evaluation that is not honest will not be effective
- Don’t Waste Time
  - Ask bottom line questions

Guidelines for Board Appraisal

- Set Evaluation Criteria and Evaluation Procedures Ahead of Time
  - Moves the process more smoothly
- Don’t Discuss the Evaluation Outside of the Board Room
  - Maintains board confidentiality

Following these guidelines will avoid most of the difficulty, awkwardness, and unpleasantness that often accompanies a Board Evaluation
Choosing an Evaluator(s)

- **Full Board Self Evaluation**
- **Board Committee Self Evaluation**
- **Non-Board Committee Evaluation**
- **Outside Consultant Evaluation**

### Full Board Self Evaluation

**Pros**
- Involves entire board
- No one knows more about the board, than the board itself

**Cons**
- Can be a more lengthy process

### Board Committee Self Evaluation

**Pros**
- Again, no one knows more about the board, than the board itself
- Will proceed more quickly since there are less people involved

**Cons**
- Possibility of bias since the whole board is not involved
Non Board Committee Evaluation

Pros
- Provides an unbiased opinion
- Outside evaluation may provide the board with information they have never considered before

Cons
- Committee will be looking from the outside, in

Outside Consultant Evaluation

Pros
- Familiar with industry as a whole
- Provide objective criteria
- Outside perspective
- Precedent for future evaluations
- Unbiased view

Cons
- Again, the consultant will be looking from the outside in
- Can be very expensive

When to Use an Outside Consultant
- First Time Evaluations
- During an emotionally charged Year
- For a Board Who Has Difficulty Building Consensus
- Internal process has not worked well in the past
What should the Evaluation Cover?

- All areas the board is responsible for
- Membership accountability
- Governance
- Board operations
- Legal responsibility
- Financials
- Planning
- Board/Member Relations

Evaluation Procedure

- Define the Duties of the Board
- Clarify Criteria of how board performance in each area will be compared to duties
- Compare Board performance with these Duties
- Suggest actions as a board to better fulfill these duties

Evaluation Criteria

- Simple but Clear
- Allow directors to say they do not know the answer to something
- Provide a written answer section in which directors can say things they may not be comfortable saying aloud
The Evaluation Form

- Each question should ask about one board performance item, and be grouped into board performance areas.
- Most questions can ask for a rank from 1-5
  - Five being “outstanding”
  - One being “needing improvement”
- Written Portion

Example: Board Operations Area

<table>
<thead>
<tr>
<th>Question Area</th>
<th>Outstanding</th>
<th>Good</th>
<th>Moderate</th>
<th>Needs Improvement</th>
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</thead>
<tbody>
<tr>
<td>Orientation of new board members</td>
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<tr>
<td>Procedures for Board Training and Development</td>
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<td>Board room discussions and participation</td>
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<td>Provide appropriate compensation of general manager</td>
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<td></td>
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<tr>
<td>Orientation of new board members</td>
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</tbody>
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Example: Financials Area

<table>
<thead>
<tr>
<th>Question Area</th>
<th>Outstanding</th>
<th>Good</th>
<th>Moderate</th>
<th>Needs Improvement</th>
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</thead>
<tbody>
<tr>
<td>Financials policies reviewed and updated</td>
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<td>Rates and indices for important financial ratios approved</td>
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<td>Insurance program reviewed and updated annually</td>
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<td>Board Procedures for annual audit established</td>
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<td>Understanding of hedging and risk control practices</td>
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Example: Planning Area

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<tr>
<th>Question Area</th>
<th>Outstanding</th>
<th>Good</th>
<th>Moderate</th>
<th>Needs Improvement</th>
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<tbody>
<tr>
<td>Approves and Reviews annual business plan</td>
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<td>Board is adequately informed about the business and market environment in</td>
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<tr>
<td>which the cooperative operates</td>
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<td>On-going strategic planning process</td>
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Example: Board/Manager Relations Area

<table>
<thead>
<tr>
<th>Question Area</th>
<th>Outstanding</th>
<th>Good</th>
<th>Moderate</th>
<th>Needs Improvement</th>
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<tbody>
<tr>
<td>Board's and management's work together to determine the direction of the</td>
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<td>co-op</td>
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<td>Formal plan for management development and succession</td>
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<td>Established procedures for annual executive committee</td>
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<td>Board chair or executive committee relationship with manager/CEO</td>
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<td>Board's focus on goals and results and leaves day-to-day decisions, methods,</td>
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<td>and processes to the director of the co-op</td>
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Compiling the Data

- All questions and evaluator responses should be prepared and distributed to directors as quickly as possible.
- A board committee (one or two members) should prepare an initial analysis for the board.
- The board as a whole should review the analysis and the responses to gain a feel for areas of improvement and to set board priorities for the coming year.
Follow Up

- Review the board evaluation responses as strategic goals are created for the coming year
- Utilize areas of strength in goal setting
- Address how to improve areas of weakness

Conclusion

- An honest and frank assessment of board performance and practices should serve as a starting point for discussions about how to improve the board’s systems and overall effectiveness.
- Good boards of directors continually strive for improvement and encourage the employees and manager of the cooperative to do the same.
- If a board contains members that are good leaders, mentally aggressive, value time, and want to make the best possible decisions, an annual evaluation will be a tool for improvement.