

# EVALUATING THE BOARD AND INDIVIDUAL DIRECTORS A FRAMEWORK FOR EFFECTIVENESS

By James Beck, Managing Director, Effective Governance, and Denise Hamblin, Senior Advisor, Effective Governance

In accordance with APRA's Prudential Standard 510 Governance, a regulated board must establish procedures for the annual assessment of its own performance and that of individual directors measured against its objectives. The detail of the assessment processes chosen is at the discretion of the board; however, review of the adequacy of these procedures is a part of APRA's supervisory role.

Instituting an adequate – let alone an effective – process can be a hurdle for some boards, and those boards whose previous evaluations have been informal may find this task particularly daunting. For boards seeking guidance in this area, we set out the key questions to consider for any evaluation. From our experience in numerous assessments, this framework provides a practical approach to effective board and director evaluations (see Figure 1).

## WHAT ARE OUR OBJECTIVES?

Clear objectives enable the board to set goals for the evaluation and make decisions about the review's scope.

For an APRA-regulated board, a number of areas could be included among the objectives of an assessment. For example: whether it has the range of skills needed for the effective and prudent operation of the regulated institution; and the processes in place to allow it to probe and test business operations and to oversee finances and compliance.

In addition, the evaluation can deal with issues such as board dynamics and board processes.

For a board new to performance assessment, a first step could be to look at the areas on which it needs to concentrate to improve performance.

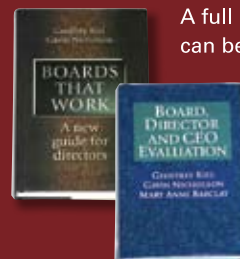
Figure 1:  
Framework for a board evaluation<sup>1</sup>

01. What are the objectives?
02. Who will be evaluated?
03. What will be evaluated?
04. Who will be asked?
05. What techniques will be used?
06. Who will do the evaluation?
07. What will you do with the results?



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## WHO WILL BE EVALUATED?

Apart from the board and directors as required by APRA, committees, the chairperson or company secretary can also be assessed to gain further insight into how the board is functioning. Board committees ought to be assessed against their roles, responsibilities and objectives on a regular basis. It is recommended the role of the chairperson be assessed as part of any board review given the importance of this role to effective governance.

## WHAT WILL BE EVALUATED?

Having established the objectives and the people/groups that will be evaluated it is then necessary to refine the broad objectives into a

**Table 1:**  
Generic roles of an Australian board<sup>iv</sup>

01. Strategy
02. CEO
03. Monitoring
04. Overview of risk management
05. Overview of compliance
06. Policy framework
07. Networking
08. Stakeholder communication
09. Decisionmaking
10. Effective governance

number of specific themes to ensure that the evaluation: (1) clarifies any potential problems; (2) identifies the root cause(s) of these problems, and (3) tests the practicality of specific governance solutions, wherever possible, within the evaluation's scope and in light of the resources available (eg., time, money etc.).

We suggest boards consider their specific objectives in light of a leading practice governance framework to establish the roles the board is expected to fulfil (see Table 1 for an example).

## WHO WILL BE ASKED?

Boards may choose to restrict the evaluation to directors only. However, it may also be valuable to ask the CEO and senior managers to give their views on the board's performance.

## WHAT TECHNIQUES WILL BE USED?

Selecting the most appropriate techniques given the evaluation objectives is vital. Two types of data can be gathered – qualitative and quantitative. Qualitative data is collected through interviews, board meeting observation and the analysis of governance documentation such as board papers. Surveys are the most common quantitative technique used and are an important information-gathering tool.

Another issue is whether to use self or peer individual director evaluation. Self-evaluation (the minimum APRA requirement) allows directors to reflect on their contributions to boardroom activities and whether they demonstrate the required expertise for their role. However, it is not a useful technique for obtaining an objective view of performance, whereas peer evaluation adds objectivity by providing another perspective on how each director is performing and gives a more rounded picture of their strengths and weaknesses and their contribution to the effectiveness of the board.

Board and director evaluations that comply with APRA requirements may now be conducted online, which is a quick and easy way for directors to respond and is a cost-effective alternative for boards.

## WHO WILL DO THE EVALUATION?

If the review is internal, the chairperson may conduct the evaluation or the board may delegate either to a non-executive or lead director, or board committee. An independent consultant can bring objectivity to the process; however, they must have the specialised skills required given the nature of board reviews. One compromise between the two approaches is to utilise an online board evaluation to confidentially develop an evaluation report that can be delivered by the chair.

## WHAT DO YOU DO WITH THE RESULTS?

An important decision is whether the results or a summary are to be disseminated to the board only, the board and senior management, the whole organisation or to stakeholders. For example, a summary of the process can be provided in the annual report.

Finally, the board will need to discuss the evaluation results to gain an



agreed path to improve governance. This can be done, for example, around the boardroom table during a regular board meeting or at a dedicated externally facilitated workshop.

## CONCLUSION

Overall, an APRA-regulated board must ensure it has a process that assesses its roles and responsibilities.

In the case of individual board members, the review process must assess whether each director has the skills and personal attributes to effectively contribute to board deliberations and processes. This can best be ascertained using a peer evaluation.

This framework provides a practical way for boards to make their evaluation processes more effective and obtain the best possible value from directors for their members.

## ENDNOTES

*Kiel, G.C., Nicholson, G.J., and Barclay, M.A., 2005, Board, Director and CEO Evaluation, Sydney: McGraw-Hill.*

*See APRA Prudential Practice Guide: APG 510 — Governance for further examples of board objectives such as establishing the overall strategy (§21(a)) and approving the risk management strategy (§21(b)).*

*For example, Standards Australia's Good Governance Principles (AS 8000-2003) or the ASX Corporate Governance Council's Principles of Good Corporate Governance.*

*For an elaboration of these roles see [www.effectivegovernance.com.au/](http://www.effectivegovernance.com.au/) and select "Services/Board Evaluation".*

*For more information on online evaluations see [www.effectivegovernance.com.au/](http://www.effectivegovernance.com.au/) and select "Online Products".*