



## Best Practices for Board Evaluations

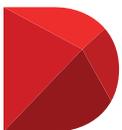
A special look at the benefits of adopting Diligent Evaluations™

Part of the Diligent  
Module Series of  
White Papers

*A recent Corporate Secretaries International Association (CSIA) global report<sup>1</sup>, sponsored by Diligent, found that 57% of organizations surveyed perform yearly board evaluations. While some organizations are required to conduct self-evaluations annually by exchanges like the New York Stock Exchange, many boards volunteer to conduct evaluations to reflect on and discuss the overall effectiveness and performance of the board. There is also growing sentiment from investors to ensure boards are behaving ethically and holding themselves accountable. Concerns over a board's failing with governance and lack of diversity – both in terms of demographics and in terms of viewpoint/perspective – are among the drivers for conducting evaluations. In short, organizations want their boards to be in the best position for success.*

However, corporate secretaries and board administrators face challenges with board evaluations. Not being able to comment anonymously, manual processes, security, lack of engagement from board directors, outdated methods, and competing demands on directors' time to complete ever longer and more numerous forms and information requests are all factors that compound the obstacles in achieving insights.

Effective board evaluations require strategy, board evaluations technology and an actionable plan to bring it all together. In this Diligent report, we provide best practices for board evaluations and an analysis of the challenges, and make the case for adopting the Diligent Evaluations module.



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## CURRENT CHALLENGES

### No option for anonymous feedback

One current method of submitting evaluations is sending them to board directors via email. However, if directors know that their comments can be traced back to them, they may not feel comfortable giving candid feedback, which may include criticism of other board directors' performance. According to a PwC Annual Corporate Directors Survey<sup>2</sup>, 70% of director respondents said they found it hard to be frank and objective in evaluating their board.

The crux of board evaluations is obtaining honest insights from board directors in order to improve the performance of the board. Directors need anonymity to shield them from potential retaliation when providing critique – good or bad – on the board overall and on individual directors. If the responses to the board evaluation questions are not honest, you will not obtain actionable insights to help the board and the organization.

### Manual, time-consuming process

Online survey solutions are a step in the right direction, but are not tailored specifically for D&O questionnaires. Many of these solutions have limited features or support, and may lack stringent security. Furthermore, using an online survey tool doesn't always equate with easy adoptability; this could be yet another tool for your already busy directors and board administrators to learn, register and manage.

With most board evaluations, corporate secretaries oversee sending, tracking and compiling all of the feedback from board directors. The current approach is for corporate secretaries to email the questionnaire and compile feedback. However, because it's a manual process, there is a higher risk of things being left up to interpretation, for example, when corporate secretaries can't read the handwritten responses, or if someone answered too quickly.

Emailing questionnaires can also impact security and confidentiality. If you're emailing the questionnaire, it could get forwarded – intentionally or accidentally – out into the public. As mentioned, directors want to provide anonymous comments and not feel threatened by the fear of retaliation.

To curtail the challenges of manually sending out board evaluations, some boards are turning to technology. However, on average, across all countries surveyed, technology is only used in 29% of cases.<sup>3</sup>

### Lack of engagement by directors

Traditionally, the board evaluation process is often very long and laborious for both corporate secretaries and board directors. The average board evaluation, if printed out, is approximately 60 pages long. Unfortunately, some board directors must print out these massive paper packs, carry them around and feel weighed down – literally – by the process.

Due to the cumbersomeness of board evaluations, many directors don't like the evaluations process; in fact, in 2017, 47% of directors surveyed wanted to eradicate the entire process. According to the same study, 63% of board directors just check the boxes on self-evaluations without much thought or care. Overall, if board evaluations are tedious or difficult, director engagement can be impacted negatively.

## BEST PRACTICES FOR BOARD EVALUATIONS

Board evaluations don't need to be such a challenge for corporate secretaries and board directors. If done right, evaluations let:

- ▶ **Directors know how their performance is viewed by their peers**
- ▶ **Directors reflect on and discuss their performance**
- ▶ **Directors voice their concerns without fear of retaliation**
- ▶ **Stakeholders know that the board is performing well**

## HERE ARE THE TOP SIX BEST PRACTICES FOR BOARD EVALUATIONS

### 1. Agree on a well-planned, systematic process for evaluations

Make sure that the board evaluations process is well-defined, occurs at the same time of the year, and includes clear instructions and deadlines for participants. While developing the questionnaire, determine the scope of the evaluations; for example, whether it is for the entire board, individual directors, self-assessment or peer to peer. Some boards find it helpful to establish a board evaluation committee and delegate the legwork for completing evaluations.

### 2. Allow for anonymous feedback

Provide an anonymous way for directors to share their feedback. The mind-set here is for stakeholders to identify individual strengths and weaknesses in order to benefit the whole organization – even if it's feedback critical of a particular director who may be underperforming. Anonymity can augment honest feedback and assuage the fear of retaliation. However, current approaches that require directors to email their responses are not truly anonymous since they can be traced back to the respondent via the email address.

### 3. Secure board evaluations

Security is paramount because board directors are giving sensitive feedback. Don't use email because it's insecure and vulnerable to hacks. Communicate to the directors that their individual responses will be secure and not leaked to other board members or the public. Consider adopting board evaluation technology that can secure the entire process.

## 4. Value board directors' feedback, time and effort

Stress the importance of board evaluations as a way for directors to provide honest feedback that helps them do their job better as well as improving the overall performance of the board. Communicate to board directors that evaluations create insights to resolve issues and to achieve goals; therefore, their participation is extremely valuable. Remind them that if board evaluations are done right, it can effect change.

## 5. Make evaluations easy

If the whole board evaluation process is difficult and tedious for board directors, engagement will drop and may impact the uncovering of any actionable insights. Make evaluations easy for board directors and corporate secretaries by moving away from emailing or sending hard copies of the evaluation questionnaire.

Consider selecting board evaluations, such as a board governance software platform, that allows users easy access to the questionnaire. Providing too many different pieces of software can create confusion; therefore, it's best to find a tool that can be integrated with existing board meeting management and governance software. Find a technology vendor that is user-friendly, secure, and that can be accessed on laptops as well as other mobile devices.

## 6. Automate where possible

Select technology and tools that can automate the process for directors and corporate secretaries for better efficiency. As discussed, the traditional approach of recreating the questionnaires, emailing or printing stacks of evaluations, sending them out and then compiling the insights is a challenge for the corporate secretary. Timeliness is the key to providing the insights necessary for boards to act.

Look for a solution that allows the director to store their responses securely from the previous year's survey. This is helpful because many questionnaires include similar questions from previous years. Consider a technology vendor that allows users the ability to port over their responses from last year and then review/decide whether they believe things have changed from the previous year. This helps provide continuity as well as allowing the board member to individually "benchmark" progress from one year to the next.

## HOW THE DILIGENT EVALUATIONS MODULE CAN HELP

Corporate secretaries and board directors are extremely busy and may often sit on other company boards. Therefore, board evaluation technology can make a positive impact on the entire board evaluation process. However, not all evaluations solutions are the same. The Diligent Evaluations module puts all of these best practices into action and provides seamless integration with Diligent Boards™.

Here's a closer look at the **Diligent Evaluations module's** features and benefits:

### Functionality

The Diligent Evaluations module is a multiplatform solution that works on laptops, smartphones and tablets. With the module, the Anonymous Response Capability allows directors to securely and anonymously share their honest feedback without concern of backlash. Eradicating the need to email or mail questionnaires, Diligent Evaluations promotes greater and more secure collaboration among users.

Corporate secretaries are empowered with features and benefits, including:

- ▶ **Submission monitoring – corporate secretaries can track completions and submissions**
- ▶ **Customized reports can be created within a few clicks**
- ▶ **Ability to add references – questions that link to additional information and appendices for quick reference and context**
- ▶ **Analytics – easily generate a variety of report types, including visual graph reports and Excel/PDF exports. All reports combine powerful analysis with great design, ready for sharing and presentation**
- ▶ **Deployment of visual graphics and Excel reports for further analysis**
- ▶ **Ability to save templates for next year – no need to recreate the questionnaire**

Overall, corporate secretaries can tap into these advanced features while augmenting efficiency, control and visibility.

### Security

The Diligent Evaluations module delivers advanced security to enable directors to respond to questionnaires securely and corporate secretaries to save the responses securely. The module uses the same high-security standards of Diligent Boards™; for example, Diligent is ISO 27001-certified for its Information Security Management System with SSAE 16/ISAE 3402 (SOC 1, Type 2) controls audited for nine consecutive years.

Because Diligent Evaluations is a closed environment, there is no need to send questionnaires by insecure email. Diligent uses industry-leading data encryption to keep confidential data safe and secure. The Diligent Evaluations module also features biometrics authentication to promote an easy sign-on option; if this option is selected, directors can use their fingerprints to quickly sign into the module, thus removing the need to remember passwords.

## Ease of Use and Accessibility

Diligent Evaluations is easy to use for both directors and corporate secretaries. The Diligent Evaluations module works on various devices, including laptops, smartphones and tablets, and works with iOS, Android and Windows operating systems.

Other capabilities include:

- ▶ **Intuitive interface that doesn't require extra training or software**
- ▶ **Same username and password as for Diligent Boards™**
- ▶ **Ability for directors to save the answers and return later to sign in and continue**
- ▶ **Status updates for corporate secretaries to see where directors are in the process**
- ▶ **Custom reports in just a few clicks via an export wizard**

As discussed, if you try to force the adoption of too many software solutions on busy board directors, you run the risk of low adoption. Diligent Evaluations, while delivering advanced features, is also an extremely simple solution to use, which can drive better director engagement in the evaluations process.

## Automated Tools

The traditional approach of creating, sending and compiling questionnaires is labor-intensive and time-consuming. Corporate secretaries are already burdened with many duties, so why make the process more difficult? The Diligent Evaluations module automates many components of the evaluations process for both directors and corporate secretaries.

Capabilities and benefits include:

- ▶ **Option to import questions and responses from last year's evaluation**
- ▶ **Automatic averages reporting**
- ▶ **No need for hands-on data manipulation**
- ▶ **Graphs that are export-ready and built for presentations**
- ▶ **Submission monitoring that provides you with automatic tracking and visibility**
- ▶ **Automatically run analytics for fast insights to share easily with stakeholders**

Diligent Evaluations empowers users with the technology to automate tasks in the board evaluations process so there is no need to hire another company to do this.



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## CONCLUSION

Board evaluations don't have to be so challenging; however, as discussed, outdated approaches to the process make evaluations difficult. As a leader in board governance technology, Diligent is uniquely positioned to share strategic insights. The Board Evaluations module makes following the best practices covered in this report easy to put into action. The Diligent Evaluations module was specifically built from the ground up with both directors and corporate secretaries in mind. The Diligent Evaluations module integrates seamlessly with Diligent Boards™ to provide you with a secure, intuitive and advanced solution for board evaluations. Diligent is committed to constantly innovating and improving board governance software for our customers, partners and the entire industry.

1. "Global board evaluation practices and trends: key lessons for the Corporate Secretary," CSIA and Diligent, January 2018
2. 2017 Annual Corporate Directors Survey, PwC, 2017
3. "Global board evaluation practices and trends: key lessons for the Corporate Secretary," CSIA and Diligent, January 2018
4. 2017 Annual Corporate Directors Survey, PwC, 2017

Watch the Diligent Evaluations Product Demonstration Video



Visit: <https://diligent.com/products/board-assessment-tool>

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