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DIRECTORS—FEAR NOT!

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In governance circles today, the conversations about “board performance” continue to advance. Governance advocates, proxy advisors and institutional investors encourage varying approaches to evaluating directors, assessing board effectiveness, and raising the bar on expectations for director contributions and performance.

Many community bank directors, however, are reticent to go down the board assessment path, fearing that the process will somehow result in their removal from the bank’s board. The goal of any evaluation, however, should not necessarily be to “weed out” directors, but rather to highlight areas for board and director improvement, and encourage continual forward movement on good governance.

In our view, there are three varieties—call them levels if you prefer—of board evaluation to consider:

Level One: a general assessment of the board overall and how the group is functioning. This evaluation might include areas such as:

- Do we have the right committee structure, leadership and meeting frequency?
- Are we as a board focusing our time on the right and critical topics?
- Do we have an appropriate and valuable range of skills and experiences around the board table to govern effectively in today’s industry climate?

Level Two: this typically involves an element of “self-assessment”, focused on *what I believe that I contribute as a director*. This analysis highlights contributions of a technical, industry, business, community or other relative area. Self-assessments also serve to aggregate the collective skills sitting in the boardroom, and help to inform the board about where there are critical gaps in the needed skills.

Level Three: this is where some trepidation often arises—the Individual Evaluation. This type of assessment involves each director providing confidential feedback on their fellow directors, and is typically (and should always be) facilitated by a third party. Using an outside resource to review and compile the data provides a level of professional insulation between directors, and ensures that no board member knows who said what about whom.

Peer Evaluations can serve an important function in opening the eyes of directors as to how their peers actually view their contribution. And, if viewed in conjunction with Self-Assessment output, can provide a worthwhile perspective on how each director views their contribution relative to how their contribution is viewed by their colleagues.

Many board members fear that an assessment will expose their shortcomings as a director. However, the goal of such evaluations is to highlight areas for improvement and to strengthen governance—not necessarily to look for a reason to cull the herd. In fact, we have seen examples of directors whose contribution had slipped a bit due to personal or business distractions—without realizing this shift occurred. In these instances, peer feedback was instrumental in bringing that director back into their previous state of highly engaged participation.

We have also observed numerous situations of individual feedback highlighting areas where directors needed updated training or a refresher course in some aspect of bank operations or oversight, often resulting in additional training for all directors. One of the hallmarks of the most effective boards is a desire for continuous improvement, and striving to be a "strategic asset board".

To be sure, board members whose current contributions have fallen off considerably and remained below expectations for an extended period might need a "tough love" conversation. A board seat is a rare and precious thing, and every director must bring current and valuable skills and experiences to the boardroom regularly. Directors whose lengthy tenure or legacy contributions are simply not up to current needs and governance standards—and who lack the fortitude for improvement—would be well served to take a hard look in the mirror and ask themselves whether the bank would be better served by an individual with more relevant skills and perspectives in that seat. It takes real maturity, self-awareness and a view for the "greater good" for a director to make that determination.

Boards have long held to age limits, much more than term limits, as a vehicle to repopulate their boardroom. Yet as directors age we are witnessing many institutions raising or waiving the age requirements in order to retain directors. While solid reasons exist at times to keep veteran contributors in the fold, boards should be mindful that a board seat should continually be earned through performance, and that it is never a right but a privilege to serve. Seats should not be "institutionalized " to an individual or family group if those representing select interests are not qualified to contribute in a meaningful way and put the institution's interests above their own.

The highest performing boards nearly always make it a policy to conduct some form of evaluation on a regular (if not annual) basis. Whether though a general, self or peer assessment process, more informed boards make better decisions around board composition and continued director service. Given the desire of many banks perpetuate independence, boards with the strongest, most capable and engaged directors will have the greatest ability to survive and thrive in this consolidating industry environment. Boards that utilize some form of assessment or evaluation as a vehicle to improve individual director and overall board performance are more likely to be survivors going forward.

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