

SELF-AND EXTERNAL EVALUATION OF SUPERVISORY BOARDS

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Abstract

Objective, systematic and useful Supervisory Board performance reviews, both individually and collectively, are becoming more and more recommended by national corporate governance guidelines (as well as new EU recommendations). In this paper, the author portrays two evaluation tools which he has actually developed and implemented with success in Supervisory Boards.

Key Words: Self Evaluation, External Evaluation, Supervisory Boards, Board Review

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1. Goals of board review

With a self-and external evaluation of boards, two goals (that belong together) are pursued:

1. the periodic, objective, systematic and useful diagnosis of strengths and areas for development of the corporate governance policies and practices in a company

2. the joint development, implementation and re-evaluation of interventions for the improvement of the corporate governance policies and practices, based on the results of the diagnosis.

To enhance the efficiency of board teams, we use the approach illustrated in Fig 1.

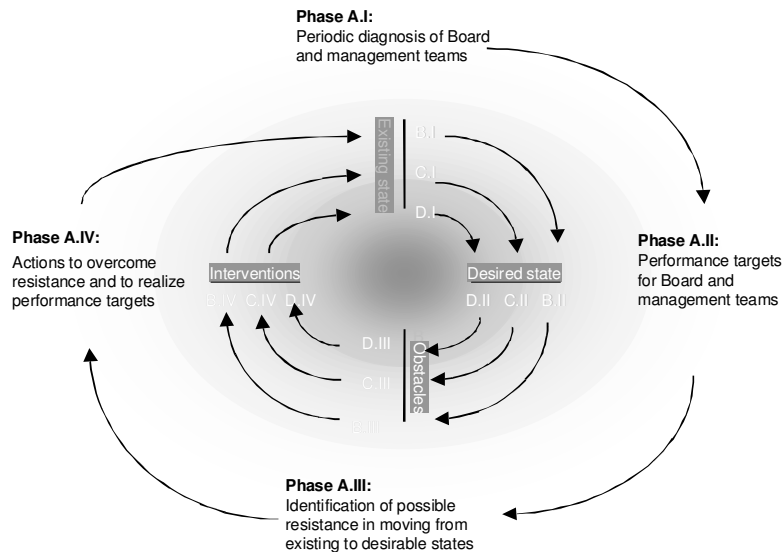


Fig. 1. Spiral concept of corporate governance and board development

The spiral diagram should illustrate that the neglect of a phase can seriously impede corporate governance and board development. In an extreme case, omitting a phase would cause development to stop altogether.

2. Instruments for self- and external review of boards

We have developed two instruments for self- and external review of boards and have implemented them successfully in boards in practice:

- A. the standardized board interview and

B. the one-page survey with board, management and shareholder representatives.

A. The standardized board interview

Our copyright protected method has three features: a standardized interview situation; a set of standardized support tools and the deduction of an action plan

The standardized interview situation

After agreeing on the standard board success variables for the company with the chairman and the board team, we carry out interview dialogues lasting roughly two hours each. As external board consultants, we speak with each board member and, if desired, with each management team member and with representatives of the main shareholders. The

results of these dialogues are strictly confidential. The conversations take place in a separate meeting room or at the board member`s place of work.

The standardized support tools

Each board member is presented with two sets of cards-one red and one green—upon which dimensions of board practice have been printed. The board members are then asked to sort the red cards in order of importance and to facilitate the task, they are asked to sort the cards into four sub-categories (see Fig. 2). The same procedure is followed with the green cards, indicating the level of satisfaction with each of the issues on the satisfaction template (see Fig. 3).

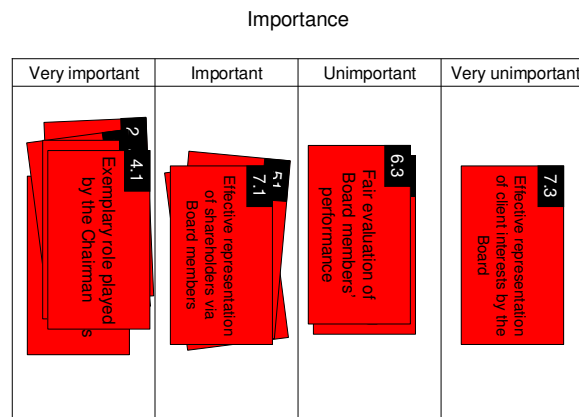


Fig. 2. Set of red cards and importance template for the corporate governance factors from the point of view of a board member

While the board members are sorting the green cards, we record the importance factors on an interview form (that has been modified to relate

specifically to the company under investigation – see Fig. 4) in red as an importance profile.

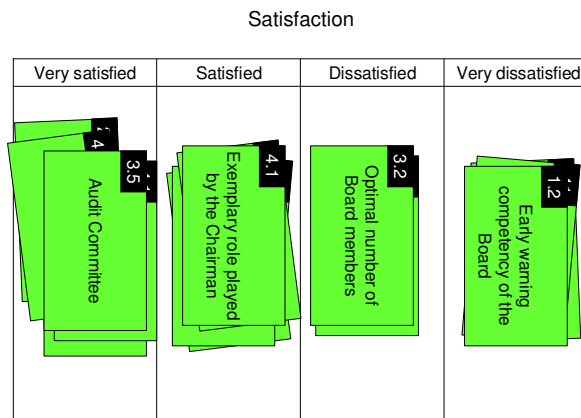


Fig. 3. Green set of cards for board members to rank their satisfaction with corporate governance practices

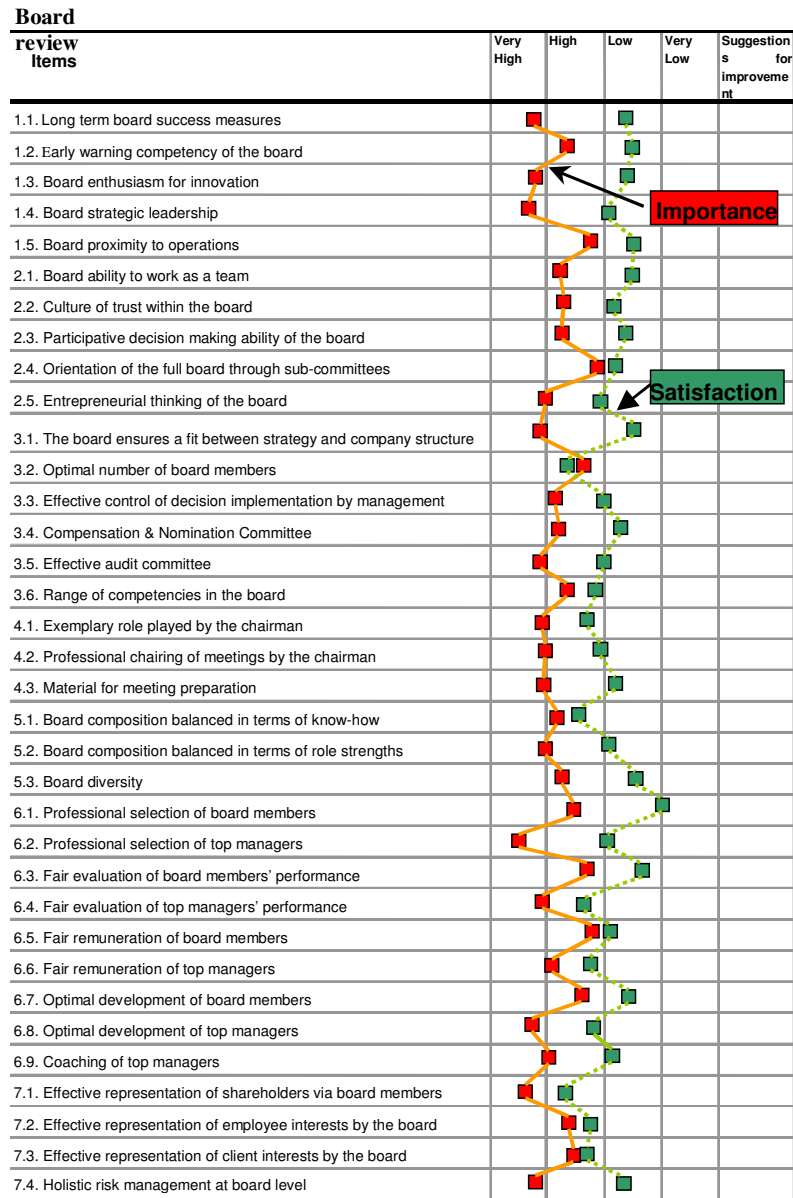


Fig. 4. Example of an evaluation profile drawn up during a dialogue

After the cards have been sorted, the importance and satisfaction profiles are represented graphically on the interview form presented in Fig. 4. This clearly illustrates the differences between importance and satisfaction for each corporate governance success factor. We then discuss the factors indicating the highest differences between perceived importance and perceived satisfaction. The conversation that follows with the board members is guided by the rank order and extent of the deficit values. For each factor, the main reason for the deficit is explored and a suggestion for improvement is generated. At the

end of the conversation, three general questions are posed:

1. What do you like best within the board?
2. What do you like least within the board?
3. In your opinion, what should be done to address the issue raised in question 2?

After having conducted all conversations, the computer-aided evaluation starts for board, management and shareholder member profiles. For each of the three groups, a final profile is calculated indicating the group average score for importance, satisfaction and the gap between the two.

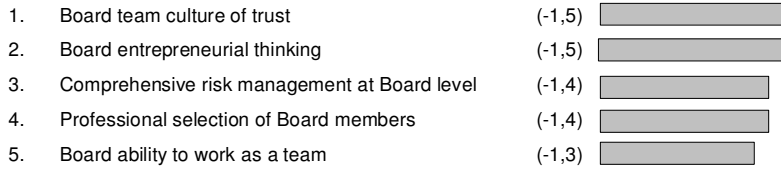


Fig. 5. Differences between importance and satisfaction (deficits) for a board, based on averaged inputs from the board, the management and the main shareholders

The action plan

After the evaluation, the final results of the deficit-profile method are presented to the chairperson, and then to the board. Together the next steps are defined. A brief summary of the most important answers to the open-ended questions is presented in a

constructive way, without revealing answers of individual board members.

The chairperson now has to develop an action plan (see Fig. 6) with the board, that determines who will do what, by when, to overcome the greatest deficit values (as a rule of thumb, we focus on all deficits greater than one).

Who?	What?	By when?	How?	With what resources?	To what end?

Fig. 6. Action plan template

To assess the success of the proposed interventions, we have found that it is useful to conduct the standardized board interview periodically (every two years, for example).

B. The periodic short survey

The initial situation: Wherever the standardized board interview is not suitable for financial or geographic reasons, a short survey can be conducted using the following guidelines:

- completeness: whenever possible, all members of the board, and if so desired, all top managers and key representatives of the shareholders have to fill in the questionnaire
- inquiry tool: the easiest approach is for the chairperson to distribute the questionnaire during a board meeting to all members, requesting them to send the completed questionnaire in a pre-paid envelope to a neutral organization responsible for the analysis and interpretation of the results
- degree of compulsion: in this approach it is possible to guarantee that participation is voluntary
- analysis of the survey: the board evaluation should be managed by an external, neutral organization

- data evaluation and interpretation: the neutral, external organization has the task of evaluating and presenting the results firstly to the chairman and afterwards to the board
- length of the questionnaire: the questionnaire should not require more than two pages. As such, it is short enough to encourage board members to complete it and long enough to obtain a good overview of the issues in need of attention
- degree of standardization: the questionnaire is standardized to facilitate evaluation and comparison with results generated at other times. It contains three short open-ended questions to allow for responses on issues not covered in the questionnaire
- survey variables: to take the situational circumstances into account, the issues addressed in the questionnaire can be adjusted to the needs of the company by the chairman and board members
- periodic review: to ensure that interventions aimed at improving governance are effective, the survey should be carried out at regular intervals – every two years, for example

- and competitive context: the short survey can also be used to compare results with comparable companies, provided such analyses are managed by a trustworthy, neutral, external organization.

The semi-standardized survey

The basic questionnaire again contains issues relevant to corporate governance, and the board

members are asked to indicate the importance they ascribe to each issue, and the extent to which they are satisfied with performance relative to those issues. In order to capture individual opinions and needs, three open questions are included in the questionnaire. For specific categories such as important shareholders, separate questions (eg. Management of meetings with the board, representation of shareholder interest) can be developed, and irrelevant issues can be left out.



Corporate Governance Survey Self-evaluation by members of the Board		Importance				Satisfaction			
		Very important	Important	Unimportant	Very unimportant	Very satisfied	Satisfied	Unsatisfied	Very unsatisfied
Evaluation criteria of the board									
1	Guiding principles of the board								
1.1	Clarity of vision and values	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
1.2	Clarity of value creation process	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
1.3	Involvement in strategy formulation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
1.4	Long-term success-measurements (standardized)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
1.5	Lead in innovation by board	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
1.6	Early-warning competence of the board	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
1.7	Shaping of the company's future by the board	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
1.8	Regular assessment of rate of achievement	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
1.9	Leadership by financial benchmarks	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
1.10	Consideration of Swiss Code of Best Practice	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
1.11	Consideration of SWX Corporate Governance Rules	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
1.12	Consideration of OECD Principles of Corporate Governance	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
1.13	Coherent insider rules	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2	Board culture								
2.1	Team-spirit of the board	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2.2	Culture of trust within the board	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2.3	Skills to consider the opinion of management	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2.4	Constructive communication with management	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2.5	Participative decision-finding approach	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2.6	Code of ethical conduct	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2.7	Checks and balances throughout the board	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3	Board Structure								
3.1	Enforcement of strategy-compliant company structure	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3.2	Delegation of authority to senior management	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3.3	Optimal number of board members	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3.4	Effective decision-implementation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3.5	Effective control of implementation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3.6	Effective performance of Audit Committee	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3.7	Effective performance of Nomination and Remuneration Committee	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3.8	Effective performance of Business Safety and Risk Committee	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3.9	Articles of Association	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3.10	Supervision of control mechanisms of the group	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4	Board composition based on competence								
4.1	Balanced composition based on key competence (research, marketing, finance, operations, HR, risk management)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4.2	Balanced composition based on market know-how	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4.3	Balanced composition based on product know-how	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4.4	Balanced composition based on internal vs. external know-how	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4.5	Integration of New Economy into business process	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4.6	Independence of board members	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4.7	Concept for future composition of board	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Evaluation criteria of the board		Very important	Important	Unimportant	Very unimportant	Very satisfied	Satisfied	Unsatisfied	Very unsatisfied
5	Board meetings								
5.1	Leadership role of chairman	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5.2	Chairing of board meetings	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5.3	Optimal use of relevant communication technologies	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5.4	Impact of chairman on group strategy	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5.5	Control tasks of chairman	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5.6	Optimal number of meetings of Audit Committee	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5.7	Optimal number of meetings of Nomination and Remuneration Committee	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5.8	Optimal number of meetings of Business Safety and Risk Committee	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5.9	Initiation of use of external consultants by board	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5.10	Records of board meetings	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5.11		<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6	Board and Senior Management								
6.1	Professional selection of board members	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6.2	Professional selection of senior management	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6.3	Fair performance evaluation of board members	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6.4	Fair performance evaluation of senior management	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6.5	Performance-based compensation of board members	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6.6	Performance-based compensation of senior management	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6.7	Executive training of board members	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6.8	Executive training of senior management	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6.9	Coaching of senior management by board	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6.10	Performance-related compensation scheme for board	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6.11		<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7	Responsibilities of board towards stakeholders								
7.1	Optimal representation of shareholders interests	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7.2	Optimal representation of interests of key customers	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7.3	Optimal representation of interests of personnel	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7.4	Optimal handling of public relations	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7.5	Risk management	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7.6	External audit	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7.7	Internal audit	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7.8	Communication between external and internal audit	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7.9	Prepared response to potential take-over offer	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7.10		<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
8	Performance evaluation by Board								
8.1	Constructive success-evaluation of the Board	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
8.2	Evaluation of internal control procedures	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
8.3	Evaluation of communication processes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
8.4	In-depth, regular evaluation of company performance	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
8.5	Reporting to investors	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
8.6	Communication with customers	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
8.7	Communication with employees	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
8.8		<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
9	What is the greatest strength of your Board?								
10	What is the area most in need of development on your Board?								
11	How would you propose that the development area be addressed?								

Thank you for your valuable comments

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Fig. 7. The copyright protected board questionnaire (adapted to suit the needs of a particular firm)

The subsequent measures

We propose that the results be presented first to the chairperson, then to the board team and finally to the management team. Discussions of the results are held at each level and address the following:

- survey objectives

- survey method
- survey results
- and an action plan for improvements.

Our deficit method of presenting results has the advantage that the graphics are simple and impressive:

Desired (importance) profile – current (satisfaction) profile = deficit profile

Differences between the results of individual board members and the averaged results for the full board, and differences between current and previous survey results can be analyzed for importance, satisfaction and areas for development.

The shared development, introduction and assessment of the action plan for improvement of governance, following the feedback results

The shared development and realization of an improvement action plan can determine the success or failure of the corporate governance survey. Boards

that do not demonstrate the necessary readiness to change should not take the survey. If the diagnosis is not followed by interventions aimed at improving the situation, the consequences can be very negative: expectations that are not met can lead to frustration among the board members.

To illustrate this point, the following paragraphs depict an example from our own experience.

In Fig. 8, we show the results of a self-evaluation by the top management and the external evaluation of the management by the board. (Software used in this process has been developed as an e-tool).

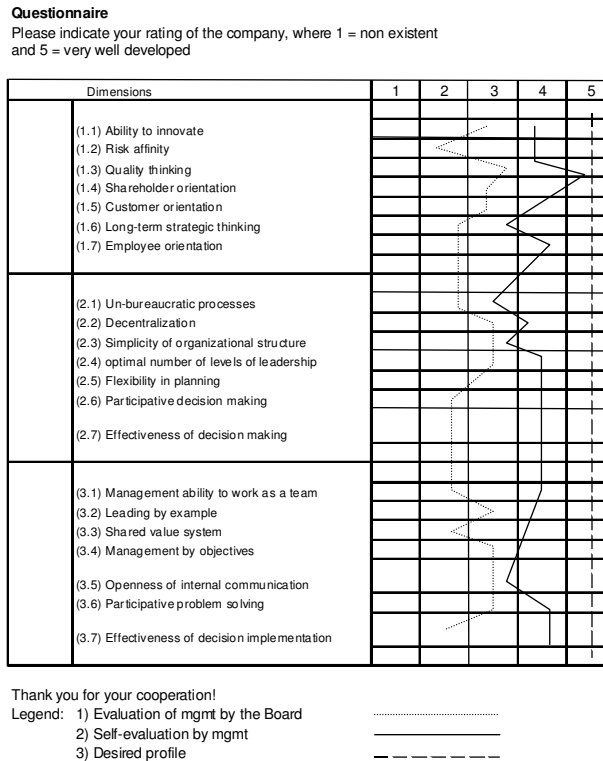


Fig. 8. Short questionnaire for a self-and external evaluation of the management

3. Procedure for self-and external evaluation of boards

The procedure is based on my “8 W” concept for board evaluation and encompasses, on the one hand, the board policies regarding:

1. board guidelines (Where?)
2. board culture (How?)
3. board structure (With what?)
4. board meeting management (Why?)

5. board diversity (from Where?) and on the other hand, the board factors:
6. board champions (Who?)
7. board stakeholders (for Whom?)
8. board feedback (with What success?)

These components should answer the eight central questions of board management. Based on this concept, we have developed a simple evaluation framework and tested it in practice.

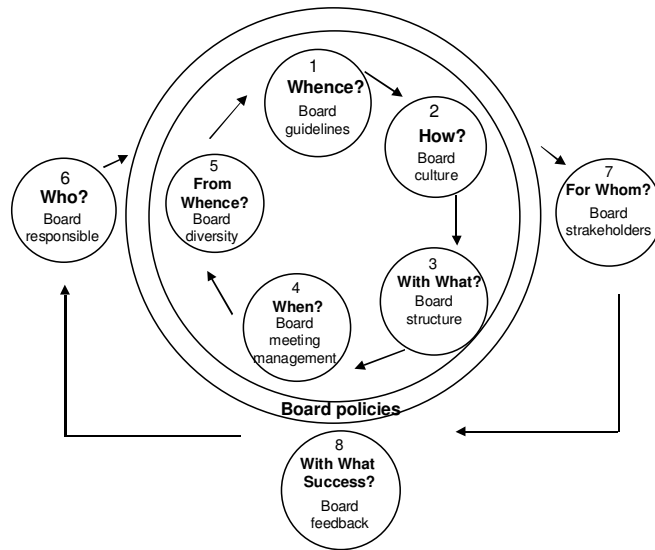


Fig. 9. Self-and external board evaluation framework

Both instruments outlined in this chapter incorporate three features:

- determining the difference between importance and satisfaction (or the deficit) on factors relevant to board success
- self-and external evaluation of individual board-members on transparent evaluation forms, and self-and external evaluation of the joint board team on green evaluation forms
- and brief presentation of results and discussion firstly with the chairperson and afterwards with the full board, and then the joint development of an action plan.

How are such instruments applied in practice?

We propose proceeding as follows: Every two years (at the start of a regular board meeting, for example):

1. Each board member receives a board evaluation form (a form printed on green paper and a transparent form).
2. Board members are asked if additional company specific factors should be considered. If so, these factors are added in empty fields included for this purpose.
3. Each board member fills out the importance side of the questionnaire, followed by the satisfaction side of the questionnaire and finally the open-ended questions (see the example questionnaire in Fig. 7).
4. The green questionnaire is separated from the transparent form and put in a box.
5. We analyze the green forms outside the board meeting room while the board members draw lines between factors that they judge as very important and the satisfaction value assigned to those factors on their transparent forms (the longer the line,

the greater the deficit that the board member perceives). Each board member makes notes on a separate sheet and creates his or her board deficit ranking.

6. After lunch or dinner, we present the results of the self-and external evaluation to the chairperson, and then to the board and the management teams, including:
 - a ranking of importance
 - a ranking of satisfaction
 - and a ranking of deficits.
 Afterwards, we distribute (on red paper) profiles of average importance and average satisfaction from the point of view of the board members and (on blue paper) profiles of the average importance and satisfaction from the point of view of the management.
7. Each board member compares the average profiles with his/her own profile on the transparent sheet; the importance and satisfaction profiles, the average board deficit profile, the average management deficit profile, and her/his own board deficit profile.
8. In the subsequent discussion, measures for improvement are worked into an action plan, specifying who does what and by when, to overcome the greatest deficits in the current board practice. The greatest obstacles to the interventions are identified and plans are made to overcome those obstacles.
9. The board survey is repeated every two years in order to monitor the success of the interventions introduced in a targeted way.
10. The board's self-review is the most valuable assessment. Depending on the context, individuals or groups besides the management can be involved in a 360° feedback process (see Fig. 10).



Fig. 10. 360° board feedback possibilities

For board development, the following formula applies:

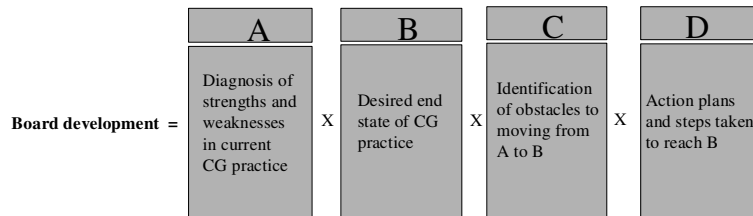


Fig. 11. Formula for board development

The results of board evaluations we conducted during the course of the last two years can be summarized as follows:

CG Practice Ranking	Firm	Branches	Highest deficit value ¹	Number of deficits > 1
1	A	I	0.9	0
2	B	II	1.0	1
3	C	V	1.0	1
4	D	III	1.3	2
5	E	IV	1.4	2
6	F	V	1.4	2
7	G	IV	1.4	5
8	H	II	1.4	7
9	I	III	1.5	10
10	J	II	1.6	11

Fig.12. Results of board evaluations conducted during the last two years

There are four points that attract attention in these results:

1. There does not seem to be a dominant industry context.
2. All companies (with the exception of company 7 and 9) belong to the most successful companies in their industry.
3. The best positioned board (1,2,3 and 4) show deficits mainly in the field of controlling, e.g. in the implementation of decisions. The

¹ In general, where deficit values between importance and satisfaction are greater than 1, there are important opportunities for board development.

companies placed in the middle of the field reveal a deficit in issues related to the shaping of the future of the company. The lowest ranked board reveals the greatest deficit in the culture of trust in the board.

4. It is interesting that the best-ranked board has room for improvement in its corporate governance transparency, whereas the company ranked last belongs to the group of leading companies in reporting transparency.

When in the worst case, as already mentioned, one of the four development factors (see Fig. 11) is non-existent (=0), no board development happens. This means for example that even if the level of dissatisfaction has been diagnosed without a doubt and the ideal state is known, there is no development if no real steps for improvements are taken.

The importance of this last development factor (action) can be illustrated by the tale of the three frogs:

Three frogs fall into a cream urn.

- The first of them is a pessimist and thinks, "There`s nothing I can do" – so he does nothing and drowns.
- The second is an extreme optimist, saying, "No problem" – he also does nothing and drowns.
- The third is an optimistic realist, who reasons "You can never know what will happen, but the most important thing is to have a target and to do something!" He thrashes about for two hours. The cream turns into butter, and he jumps out!

Reference

Hilb, M. (2005): "New Corporate Governance - Successful Board Management Tools". 2nd edition, New York, Springer. pp.190-207.