



Trustee Services

Evaluating Individual Trustees' Performance

By Barry S. Bader

As the drumbeat of attention to governance effectiveness intensifies, the evaluation of individual directors is off-limits no more.

Indeed, the New York Stock Exchange, Business Roundtable and National Association of Corporate Directors all recommend that corporate boards institute individual director assessment.

Medtronic, a manufacturer of medical devices with more than \$10 billion in annual revenue, evaluates its board members on how well they represent shareholders' interests, engage in meaningful participation, communicate freely with other directors, understand the company's strategy and make their expertise available to the board.

The Governance Institute recommends that hospital and health system boards evaluate not only "the effectiveness and adequacy of the board and its committees" but also "the background and qualifications of individual directors, *and the contributions of each director to the board and to mission effectiveness.*"

Middlesex Health System, a single-hospital system in Middletown, Conn., has evaluated individual performance since the 1990s, says CEO Robert Kiely. "We felt that we were entering a new era in terms of expectations of board members," he says. "Board members asked, 'How can we expect our management staff to take their jobs seriously if we are not serious about making sure that the board is held to the highest standards possible?'"

2003 Governance Institute survey found that 27 percent of hospital and health system boards evaluate the performance of individual members. Another 21 percent were considering it, but 52 percent had no plans to examine individual director performance.

Traditional Reluctance

Many reasons exist for the understandable reluctance to evaluate individual board members:

- Reticence to confront friends and colleagues, especially volunteers serving without compensation and individuals with strong egos.
- Risk of losing valuable members who are offended by criticism.
- Risk that passing judgment on a fellow director could jeopardize a member's outside business with the colleague's firm.
- Much of what trustees do, such as counseling the CEO or committee work, isn't seen by most other board members and therefore is hard to evaluate.
- Discomfort in applying the same standards to all members. For example, some members have trouble making it to meetings but are active in fund-raising or political advocacy.
- Risk to the CEO.

These concerns have varying degrees of legitimacy, but they are gradually giving way to the recognition that individual performance is an integral element of governance effectiveness

Individual assessment is far from a universal practice.

performance from page 1

and cannot be ignored. The right kind of individual assessment is constructive, reinforces a culture of accountability and helps members see the impact they have on the rest of the board team.

Four examples

“The unique advantage of peer review is that members of a board see one another at work and therefore have first-hand knowledge with which to make an evaluation,” corporate governance consultant David Nadler wrote in *Harvard Business Review*.

At Northeast Health, a small integrated delivery system in Troy, N.Y., each board member eligible for reappointment completes a one-page, confidential self-assessment developed by the governance committee. The questionnaire aims to motivate trustees to look critically at themselves, but members do not submit it to anyone. Instead, the board chair discusses with individual members their contributions and interest in continuing to serve.

Tricia Brown, vice president of corporate affairs, says the process has reinforced the importance of regular attendance but has not prompted major behavior changes or prevented any reappointments. She adds, however, “We have learned that if someone [isn’t contributing] or just can’t give the time, we don’t wait until their term is up. We try to address it when we have seen a trend over six to eight months. That has worked.”

The individual assessment process at Presbyterian Healthcare Services, a large, not-for-profit, integrated delivery system in Albuquerque, N.M., continues to evolve. Presbyterian bases its assessment on a written set of behavioral traits and expertise sought from board members.

Best Practices for Individual Assessment

1. Adopt individual assessment for education and improvement—not discipline.
2. Clearly define and communicate the board’s responsibilities and the expectations of individual members.
3. Recruit good board members. Evaluation is not an antidote for poor selection.
4. Keep the evaluation instrument simple and clearly tied to individual member expectations.
5. If engaging in peer assessment, consider allowing trustees to send questionnaires to a third-party facilitator to maintain confidentiality. Use the facilitator to counsel individual members.
6. Exercise accountability: Counsel members with problems involving attendance, meeting conduct or personal interactions.
7. Periodically review the process by asking members if it’s working and adjusting the methodology, questionnaire or frequency of evaluation.

Presbyterian first evaluated trustees after it downsized the system board from 30 to 11 members in 2002 and changed from being “a rubber stamp for the executive committee to being an active board,” says Mary Wicker, governance manager.

At first, the governance committee reviewed each member annually. Now, trustees assess each other, and the

governance committee reviews the results, which the board chair discusses privately with each member. The chair also asks members if they want to fulfill their term and be considered for another. “It helps members be introspective and determine how they can improve,” Wicker explains.

Trustees who opt to stay agree on a “personal development plan” with personal goals.

Middlesex Health System first tried peer assessment around 1996 with mixed results. Now the governance committee assesses each member annually on attendance, committee work, follow-through on assignments, being prepared and applying skills.

Trustees receive feedback and, if necessary, counseling. Often, just seeing their attendance records or learning how their conduct is perceived by others motivates improvement. One member, a busy corporate executive, changed his behavior after seeing evidence of his spotty attendance and his peers’ concerns about his inaccessibility. But another member didn’t improve even after hearing that she was unprepared for meetings and “non-collegial.” She was asked to resign.

The board of Catholic Healthcare Partners, a regional health system in Cincinnati, conducted a peer assessment of all members in 2001, motivated by its commitment to excellence and a continuous learning environment, explains Sister Mildred Ely, the board chair. “We wanted to improve our overall board effectiveness as a governing body,” she says.

performance from page 2

In addition, trustees hoped a peer assessment could address some problems with interpersonal dynamics.

Individual assessment wasn't entirely new for CHP. Previously, trustees evaluated any member eligible for re-appointment. The board engaged a governance consultant to help develop individual competencies, administer a survey, write a report for each member and speak with those desiring a meeting. The consultant also prepared an aggregate summary of key trends and informed the governance committee if a member's scores were low enough to raise concerns about continued service.

Sharing the survey results with each member resulted in some positive changes. "It identified areas where a board member could improve," explains Ely. "It raised the consciousness of board members of working as a group." Members now put renewed emphasis on "bringing out each others' strengths in addition to just having one's individual input."

CHP continues assessing members up for reappointment, and plans to repeat the full board peer assessment every five years.

Step-by-Step Approach

The decision to conduct individual assessments cannot come from the outside. It should reflect a board's underlying belief in the value of assessment. Key steps to adopting and periodically revisiting an individual assessment process include:

1. Buy-in. Board members should agree on the need for individual evaluation and approve the evaluation tool.

2. Governance committee. The governance committee should be

responsible for coordinating the individual assessment process.

3. Policy statement. The board should write a policy that outlines its purposes and procedures for conducting the assessment.

4. Competencies. The board should adopt a written set of competencies or behaviors that describe what it expects from individual trustees. These competencies form the basis for designing an individual trustee assessment questionnaire.

5. Assessment process. There are many ways to assess individuals' contributions. From least intrusive to more intrusive, they include:

- **Individual, confidential self-assessment.** Board members assess themselves on a questionnaire and

discuss their answers with the board chair, focusing on areas the member wants to improve.

- **Individual, shared self-assessment.** Each member submits a personal assessment questionnaire to the board chair or governance committee. The chair meets with members individually.

- **Governance committee or board chair assessment.** Members do not complete a survey; instead, the governance committee or board chair assesses each member's participation and determines whether there is need to discuss any issues with a member.

- **Peer assessment.** Each board member assesses the others and shares the results with the governance

See performance, page 4

committee, board chair or an independent facilitator, who also is available for counseling.

6. Feedback and improvement.

The survey process reinforces the attributes that the board seeks from its members. If trustees receive a written report or meet with the board

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chair or facilitator, they receive positive reinforcement for behavior others perceive as constructive, and they become aware of the need to modify behavior that is not perceived well. This is perhaps the most important step in the individual assessment process.

7. Accountability. When problematic behavior doesn't change voluntarily, a board—normally through the governance committee—should consider asking for a member's resignation or not reappointing the member to a new term.

Lessons Learned

It's important to choose the right

time to introduce an individual assessment process, and to have a supportive board chair. It's often the chair who has to "step up to the plate to deliver difficult news to fellow directors," says Kiely.

"A lot of this is in the tone. How you do it, who does it, when you do it, coaching and ultimately, knowing the best way to tell somebody their services are no longer desired. Choose wisely the people to deliver the messages."

The peer assessment process was accepted at CHP, says Ely, because the governance committee took almost a year to define the competencies expected of individual members and agree on the assessment instrument and procedures.

"That is how we accomplished the buy-in by the board members," she says. "They were as comfortable as they could be. Having an outside consultant with objectivity and expertise was helpful, as was the personal feedback each board member received."

"You've got to take baby steps," agrees Wicker. "Some boards are ready for this and will go gung-ho on these evaluations much quicker than the other boards. Boards are on different levels. Respect that, but keep pushing governance best

practices and communicating why these tools are of value."

A key element with subsidiary boards is enlisting the support of local executives. "Affiliate regional boards that are more open to changes [such as individual evaluation and other best practices] tend to have administrators who are more open to continuous improvement," says Wicker. Multi-hospital systems should develop administrators' governance skills and encourage them to develop their boards.

To avoid making individual assessment appear directed at particular individuals, "you have to do this on a regular basis," says Kiely. "This cannot be something you do every five years. There has to be an expectation that this is being done regularly." **GB**