

Improve your boardroom performance

BEST PRACTICES
FOR THE SUPERVISORY BOARD'S
SELF- EVALUATION

As a member of the supervisory board you want to actively contribute to the success of your organization. You and your colleagues seek for business opportunities, warn against risks and think along with the management board. But how do you make sure that the supervisory board functions adequately? By offering help with the self-evaluation BoardResearch provides insight in the functioning of your supervisory board. Also, you contribute to scientific research into the field of corporate governance and board room dynamics.

In this brochure we highlight the significance of a thorough self-evaluation by the supervisory board and we share insights and experiences concerning the self-evaluation. Also we explain our method used for the self-evaluation and BoardResearch's contribution to scientific research to corporate governance.

Do you have questions or remarks or are you interested in BoardResearch's services? Please contact us via the details at the end of this brochure!

Our goal

The main goal of a self-evaluation is to gain insight in the functioning of the supervisory board and consequently discuss points of improvement for the supervisory board.

Also, the Dutch Code of Corporate Governance dictates to perform at least yearly a self-evaluation regarding the functioning of the supervisory board. This self-evaluation should also comprise a performance evaluation of separate committees within the supervisory board and individual members. A report of this self-evaluation is included in the organization's annual report.

Method

A thorough self-evaluation focuses on several dimensions. Figure 1 pictures this. Each of the dimensions of this pyramid is important for the performance of a board. Experience shows that the higher the dimension in the pyramid, the more delicate the self-evaluation is experienced by its participants. Participants should therefore adopt a nuanced approach and take enough time to discuss the upper layers of the pyramid (for tips see Best Practices further in this document). However, by spending enough time and attention on each of the dimensions, the functioning of the supervisory board improves.

Content and processes are the most primary elements of the self-evaluation. These elements are the most obvious to discuss during a self-evaluation. By evaluating the element **content**, the main question is 'Do we deal with the right issues as a supervisory board?'

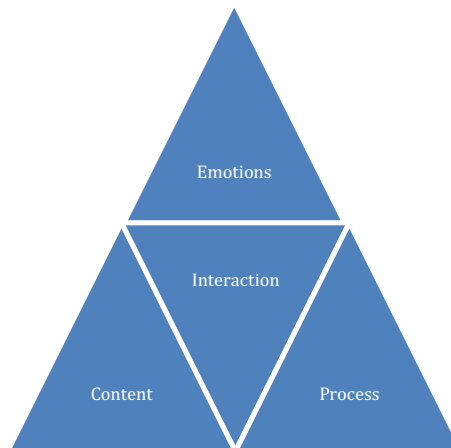


Figure 1: Dimensions of self-evaluation

These issues are in particular the organization's strategy, the remuneration policy or other substantive issues a supervisory board should deal with.

The **Process** dimension is focused on compliance with law and regulations of both the internal organization as external supervisors, such as the Code. An evaluation on this level should suffice with a checklist, which if necessary can be outsourced to someone outside the supervisory board.

The dimensions Content and Processes are often discussed in detail during a self-evaluation. Sufficient checklists regarding law and regulations can be found online. Thereby, supervisory board members are selected on their subject expertise. However, experience shows that behavioural dimensions such as Interactions and Emotions are more delicate and less discussed in detail.

Although the supervisory board can be indicated as a special group, the board is nevertheless subject to group processes and emotions that may lead to suboptimal decision-making. Therefore, it is important to explicitly discuss Interaction and Emotions in the self- evaluations.

When evaluating **Interactions**, the main question is how supervisory board members interact with each other, but also with management board members and other stakeholders. Examples are 'Offers the supervisory board a safe environment in which supervisory board members truly say what they think?' or 'How does information flow between the supervisory board and the management board?'. For a supervisory board, it is hard to perform effectively as a group, when effective interactions are absent.

Finally, the dimension **Emotions** describes which feelings are present with supervisory board members. Although this is the most delicate dimension of a self-evaluation, this dimension can play a very disruptive role if not adequately addressed. When evaluating this dimension, it is important for supervisory board members to express their feelings towards their fellow board members. An example is 'To what extent are emotional tensions present between supervisory board members?'.

Best practices for the self-evaluation

Based on years of experience with board evaluations, we composed a list of tips for the self- evaluation.

BoardResearch's motto

Our motto is: Only start self- evaluations if the supervisory board is sincerely willing to work on points of improvement. If not, a self- evaluation works contra-productive. Therefore, determine goals and subjects prior the start of the self-evaluation.

Best time of the year

In our view, the best time to do a self-evaluation is the first quarter of the book year. In this time of year, the supervisory board's agenda is least filled with topics as discussing budgets and financial statements, and therefore more time can be spent on the self- evaluation. At the same time, the previous book year is still easily remembered.

Involving stakeholders

By involving stakeholders, such as the management board or the secretary in the self- evaluation the supervisory board gains even more complete insights in the supervisory board's performance. Yet, it is important to keep in mind matters such as privacy, and the relationship between the supervisory board and the management board.

Be honest and open

A self- evaluation only makes sense when members of the supervisory board are willing to be open and honest about their perception of the supervisory board's performance. Be honest in giving feedback and be open for receiving it.

Appointing a facilitator

An external facilitator may help the supervisory board to structure the self-evaluation. Also, an external facilitator may help to bring the self- evaluation to a deeper level than would be reached in a 'normal' conference between supervisory board members.

Pitfalls

Besides best practices, we also compiled a list of common pitfalls for the self-evaluation.

When it's urgent, it's too late

The most common pitfall is a lack of time for a thorough self-evaluation. There will always be topics on the agenda, which are more urgent than the self-evaluation. It may happen that the meeting for the self-evaluation is postponed or even **cancelled**. However, we would **advise** the supervisory board to prevent the self-evaluation of being postponed. Because at the moment the self-evaluation is urgent, for example because of evident failure, it usually is already too late for improvement.

Too little preparation time

Also, there should be enough time prior to the actual self-evaluation meeting to prepare for it. When using BoardResearch, we would advise to sign the supervisory board up at least four weeks prior to the self-evaluation meeting. Consequently, there will be enough time to start the research, to fill in the questionnaire and drafting the reports. Then supervisory board members also have enough time to prepare for the self-evaluation meeting by reading the reports and formulating positive and improvement points.

A checklist is not an evaluation

In some cases, a checklist is used as an evaluation. Questions in such a checklist would be 'Do we include the evaluation report in our annual report?' or 'Are our procedures regarding governance described in the organization's regulations? Yet, according to us a thorough self-evaluation focuses on the quality of the collaboration between supervisory board members and with the management board, the secretary of the board and committees within the supervisory board. Important questions are 'Is important information freely shared between supervisory and management board members?' or 'To what extent does the audit committee contribute to the decision-making quality of the supervisory board as a whole?'

Unbalanced input

Another pitfall is the unbalanced input between supervisory board members. It may happen that the chairperson of the supervisory board plays a dominant role and thereby impedes other supervisory board members to discuss the functioning of the chairperson.

Fear of consequences

A final pitfall in the self-evaluation is that people are afraid to discuss delicate issues, because they are afraid for (legal) consequences. It may occur that management board members are punished afterwards for bringing up critical points. Especially the chairperson of the supervisory board plays an important role in preventing these situations.

Why BoardResearch?

There are multiple tools in the market place that can be used for the self-evaluations. These tools range from facilitators taking interviews and checklists. So why would you use BoardResearch for your self- evaluation? Below, we list a few reasons for using BoardResearch for the self- evaluation for your supervisory board.

Thorough

As described earlier in this brochure, a self- evaluation should reach several levels. A distinction can be made between elements that can be finished with a 'compliance checklist' and elements that require more attention and nuance.

Although each of the dimensions returns in the questionnaire, BoardResearch focuses specifically on the elements Interactions and Emotions. The reports mostly describe results of the element Interactions and will offer your supervisory board starting points to discuss Emotions in the plenary meeting.

Scientifically validated

BoardResearch uses validated measuring instruments. That means that questions used in the questionnaire have proven their quality and reliability in previous research for 'measuring' certain themes. Also, when using BoardResearch your supervisory board contributes to scientific research in the field of corporate governance. Data and findings are (anonymously) used for research into the role fulfilment of the supervisory board, the influence and recognition of individual members and the relationship between the committee's performance and the performance of the supervisory board as a whole.

Four reports

Based on the questionnaires BoardResearch drafts four reports. Those are a benchmark report, in which the score of the supervisory board is compared to a benchmark and view- self view report, in which the perception of an individual member about his or her performance is compared to how his or her fellow board members perceive his or her performance. This report is only provided to the supervisory board member in question.

The third report is the additional report, which is based on answers to the open questions in the questionnaire. Finally, there is the management board report that only is provided to the management board. In that report, the supervisory board's and the management board's perception about the supervisory board's functioning are compared.

Contribution to research costs

The goal of BoardResearch is to collect as much data as possible from supervisory boards, in order to get a better understanding of the functioning of supervisory boards and behaviour of directors in the boardroom.

BoardResearch has no profit motive. Whilst doing this research does involve research costs, for example in the form of (technical) maintenance of the website and the wages of our research assistants. Therefore, we ask a cost-covering fee of €750,-. If there is reason to deviate from this fee, please contact us, then we will be able to discuss a different rate. We would very much appreciate it if you make a financial contribution to the research costs.

Contact

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