

## NACD Event Highlights

January 12, 2010 Breakfast Event

### *From Compliance to Excellence – a More In-Depth Look at Board Evaluations*

Moderator Bill Poduska, an independent business consultant and member of multiple corporate boards, kicked off the panel discussion at NACD New England's January 12, 2010 Breakfast Event by voicing a sentiment that seemed to resonate with everyone in attendance: evaluating director performance is a hard thing to do. "Most boards operate in a very collegial way, which makes it very difficult to do objective, intellectual and thoughtful evaluations of our peers," he said. Sharing their experiences in overcoming these difficulties were three panelists with extensive backgrounds serving as directors and board advisors. ([Click here](#) to view slides from the panel discussion.)

Setting the stage for the panel discussion was Marguerite Piret, President and CEO of the Boston-based investment banking firm Newbury Piret & Company, Inc. and a board member and committee chairman of the Pioneer Mutual Funds. In today's environment of growing shareholder influence and empowerment, the credentials of director nominees are being scrutinized as never before, as is the performance of boards and their committees in areas such as risk management and communications with shareholders, Piret said. The criteria for evaluating the performance of individual directors and the mechanisms for conducting these evaluations must keep pace with these changing expectations.

Following Piret was Will Messenger, owner and Managing Director of the business consulting firm Lexington Sycamore Group and director and committee chair at ArQule, Inc. "The purpose of board evaluation is to produce change when change is needed," Messenger said. This change is driven by dynamics related to the company and its products, as well as external factors, he said. The mission of a board is to provide strategic leadership to the company as it navigates these changes. The board should self-evaluate its composition annually to ensure that the individual skill sets represented continue to fit the company's evolving strategy and are effective in mitigating risk, he said.

Messenger then explained in detail ArQule's annual board and committee self-evaluation process. This triggered a series of audience questions and comments on the pros and cons of doing 360-degree evaluations of individual directors (which ArQule does not do), as well as various methodologies for performing individual evaluations on a confidential basis, including the pluses and minuses of written versus oral evaluations and of employing outside consultants for this purpose.

Concluding the panel's prepared remarks was Suzanne Hopgood, President and CEO of The Hopgood Group, LLC, who serves as chair of the Nominating and Governance Committees of Acadia Realty Trust and also as the NACD's Director of Board Advisory Services. Hopgood opened her comments by returning to a theme identified earlier in the discussion – the growing importance of shareholder communications and transparency. As an example, she pointed to her experience as a director of protective technology provider Point Blank Solutions, Inc., which disclosed its corporate strategic plan in its 2008 proxy statement.

The disclosed strategic plan not only included a detailed list of the skill sets identified as crucial to have on the company's board, but also mapped the background of each individual director to these required skills as determined by the board's peer valuation process. "Why is it valuable to do a board self-evaluation?" Hopgood asked. "Because our goals are to be better directors and to ensure that our collective skill sets will meet the company's strategic needs as they involve in the future."

Hopgood's remarks spurred a lively interchange between her co-panelists and audience members on issues including:

- Recording evaluations digitally – which would make them discoverable – or on paper, which can be permanently shredded;
- Whether shareholders can make reasoned judgments on the credentials of director nominees based on the limited information typically disclosed in proxies;
- The dangers of board members getting too involved in business operations versus thinking strategically; and
- The importance of assessing leadership skills as well as governance and business expertise when selecting director nominees.

Moderator Poduska then opened the session for questions, and more than a dozen members of the audience stepped up to the microphones. The topics were wide-ranging and covered areas including:

- The pros and cons of director age and term limits as methods for refreshing board composition, versus succession planning driven by corporate strategy and systematic board self-evaluation;
- How to evaluate a potential director nominee's future ability to work well with senior management in the capacity of both performance coach and strategic counselor;
- The proper role for management to play in the process of selecting director nominees;
- How to identify and address a sitting director's poor performance;
- Differences between the needs of small- and large-company boards, as well as between public and private company boards; and
- How to overcome the objections of sitting directors when introducing a self-evaluation process.

The January 12<sup>th</sup> NACD New England Breakfast Event adjourned with a reminder from chapter president Bill Earon about the importance of members volunteering to help with chapter events and by providing chapter leadership with feedback – most immediately by returning the recently circulated Chapter Survey. The next Breakfast Event, *Outside Directors Inside the Family-Owned Business – a Mock Board Meeting* is scheduled for Tuesday, February 9, 2010, at the Newton Marriott Hotel.

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