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Board Structure and Composition





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Board assessments that deliver

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Board evaluations play a crucial role in enhancing board performance, particularly in succession planning and board revitalization. They provide an important opportunity to engage all directors to understand their perspectives on issues they deem worthy of focus. They represent a delicate balance of art and science, as they have the potential to make people uncomfortable; however, they should be seen as an ongoing process for improvement that offers the benefit of constructive feedback.

On the science side of things, per the NYSE's regulation 303A.09 regarding the annual performance evaluation of the board, "The board should conduct a self-evaluation at least annually to determine whether it and its committees are functioning effectively." The NYSE expects its listed companies to annually evaluate both the full board and each of the key board committees—audit, compensation, and nominating/governance (NYSE Regulation—Section 303A).

On the art side of things, the cliché to avoid the "check-box-design" is applicable yet woefully superficial. The best and most valuable board assessments utilize straightforward questions and interview techniques, but they are led by an individual or an individual in concert with an independent expert with board and/or chief executive experience, governance expertise and extraordinary interpretive powers to guide boards into the future.

According to Korn Ferry's "2024 Annual State of Board Evaluations in the U.S.," three noteworthy board assessment trends have emerged. First, 50% of disclosing companies in 2024 noted evaluating individual directors vs. 48% in 2023. Second, there was a slight increase in boards engaging with a third party to assist in board evaluations from 32% to 35%. This increase may be because boards vary how they conduct the evaluation process from year to year, or it may illustrate a growing trend to involve third parties at least periodically. Their analysis found that companies use third parties in various ways, from minimally involved (e.g. reviewing the board's evaluation process) to highly engaged (e.g. conducting interviews and facilitating

director feedback sessions). Third, in 2024, 51% of disclosing companies used interviews in the evaluation process vs. 49% in 2023 and 35% of the disclosing boards used a questionnaire/survey and interviews in their board evaluations (Korn Ferry's Annual State of Board Evaluations in the U.S. 2024).

In brief, key points for self-evaluations include the following:

- It is important to select a facilitator/leader who can provide an objective understanding of the board's performance in areas such as oversight, strategic planning, and decision-making. This may involve the corporate secretary, general counsel, governance expert, or another senior manager. In all cases, the company's general counsel should be involved in the entire process, including handling comments, ensuring confidentiality, reporting results, and determining the recipients of the report.
- The framework design includes chief executive officer (CEO) and director pre-assessment conversations to gain insight into incorporating questions on roles, responsibilities, and performance expectations. This encompasses company performance, CEO performance, and board performance.

The major components that our firm includes, but is not limited to, are **board culture** (e.g. does the culture promote the timely resolution of issues and conflicts?), **board management** (e.g. do current practices enhance efficiency and performance?), **board composition and leadership** (e.g. are the board and board committee leadership effective?) and **board governance**—structures and practices—full board and committee focus (e.g. is there agreement on the most pressing issues?). Our proprietary framework and scale utilize a numerical 0–10 scale. The scale is used in conjunction with the verbal answers to

distinct qualitative questions, which are catalysts for actionable suggestions. To reiterate, the framework design should provide quantitative and qualitative results collected through a survey and confidential interviews that yield strategic themes and insights (Stuart Levine & Associates Research).

- At a minimum, the crux of evaluations/assessments should involve information flow; culture; succession planning; the board's handling of crises; skills; operational resiliency; innovation; financial oversight; and effectiveness in dealing with risk. Again, done correctly, it will constructively determine if the board and each director have demonstrated integrity, accountability, and solid judgment.

As to the importance of culture in these conversations, a paraphrased version of Norm Augustine's view is one to consider—"If the objective is not to change the organization's culture, then the question becomes how does the current board member fit into the existing culture? Culture can be a powerful lever for good or, sadly, harm."

Further, individual directors' understanding of the company's strategy, drivers of profit, competitive risk, corporate sustainability, human capital management, risk control systems, legal and governance standards, duty of care, duty of loyalty, acting in good faith, and dedication to continuous learning must be part of the assessment process.

The board report details the strengths, weaknesses and opportunities for the full board and its committees. More specifically, it should underscore requisite board action as the self-evaluation or independent board assessment may pinpoint that additional expertise to the board is needed, a change in the composition of board committees is warranted, board diversification is required,

counsel to a board member should be implemented, a director should not be re-nominated, and a compliance issue(s) requires fixing (Corporate Director's Guidebook, 7th Edition).

To provide a corollary to avoid the "check-the-box-design," go beyond the survey scores and demand a substantive and unfettered analysis of the quantitative and qualitative findings that have a one to two-hour discussion session reserved at the next in-person full board meeting.

Once again, the goal of the board assessment findings is to foster constructive discussion, optimize board effectiveness, and enhance it, rather than impose punishment.

Directors dedicate over a month each year to board-related activities. High-functioning boards dare to reflect honestly on their performance, recognizing both their strengths and areas for improvement. Hiring a qualified independent third party to go to the next level and assist in this process fosters transparency and provides an unbiased perspective. This initiative engages the board in identifying and maintaining its strengths while also highlighting opportunities to enhance the board's culture. Additionally, it serves as a foundation for making informed decisions about the re-nomination of director candidates.

By utilizing an independent, confidential and professional process that encourages self-reflection, third parties can create an environment conducive to learning and growth. Data collected from all board members regarding the board's overall performance significantly contributes to optimization efforts.

The assessment provides overall score averages based on 20–30 carefully crafted questions. It captures diverse

opinions from board members and offers valuable suggestions for improvement in key areas, including committee chair communications, board succession, and the relationship between the board's oversight role and management's role.

Gathering feedback on board management, composition, governance, and culture helps pinpoint key issues and provides a pathway for enhancing both board performance and culture. Engaging with the CEO and selected senior officers can offer valuable insights that contribute to improved board effectiveness.

Incorporating the executive team into this assessment allows the board to gain insights into how management believes the board can better serve the organization and what the ideal board-management interface should be. This input is essential for board members striving to enhance the quality of board service.

A well-designed board assessment process can address the following questions:

- **Board culture:** is your board culture collegial and capable of sustaining honest and challenging conversations? Do the board and senior management maintain strong internal communication? Are the right issues being discussed?
- **Director performance:** are board members well-prepared, and is "airtime" effectively distributed? Is there an adequate onboarding process for new directors?
- **Strategic planning and risk management:** is the board actively engaged in strategic discussions and appropriately evaluating risks?
- **Succession planning:** is there a succession plan for the board and C-suite executives? Is the board

comfortable discussing succession planning with the CEO?

- **Logistics:** are board materials and minutes provided promptly, allowing sufficient preparation time before meetings and prompt distribution of minutes afterward?
- **Committees:** are the appropriate committees in place, and how well are they functioning?
- **Board composition:** does the board possess the right talent to address current and future strategic needs?
- **Continuous learning:** are board members staying informed and continuing to add value?

Encouraging board members to share candid feedback in a trusted environment fosters improved board dynamics, more focused agendas and streamlined processes, better meeting materials, and more suitable board and committee compositions that clearly define responsibilities.

Identifying board strengths and areas for improvement can lead to enhanced learning programs, individualized director coaching and succession planning that ensures the board possesses the necessary skills aligned with regulatory trends and evolving strategies. Board assessments often reveal shortcomings in the focus and structure of board agendas, including the excessive use of complicated PowerPoint presentations that lack concise executive summaries. They can also highlight whether sufficient time is allocated for discussions on critical strategic issues.

Moreover, board assessments can help determine whether an appropriate CEO dashboard exists to evaluate the CEO's performance and ensure alignment with the organization's goals. The most successful CEOs learn to communicate effectively with

their boards, and developing a framework for the CEO dashboard can facilitate this process.

Below is a snapshot of a well-designed strategic CEO dashboard:

Strategic CEO Dashboard

Strategic Performance Category	Weight
Financial Performance	30%
Customer Satisfaction	25%
Culture and Employee Turnover	20%
Technology/AI and Cybersecurity	25%

Culture must become a part of the CEO's dashboard, with a defined measurement. Data must be collected on an ongoing basis to measure cultural alignment with the organization's core values, and then there needs to be a robust strategic communication plan that drives it. Reviewing and affirming the vision, mission and core values of the organization creates a common understanding and common language.

The key factors contributing to an optimized board also relate to having a strong board culture, a focus on ensuring effective company strategies and succession planning and having engaged directors who are prepared for all meetings. Unfortunately, these factors are not easily achieved and require strong leadership from the CEO and dedication from all directors.

The culture of an organization starts at the top, directly reflecting the actions and values of the board. These intangible assets make up a significant part of a company's market value. You cannot have a strong culture without an embraced vision, mission, and core values within the company. Core values become the "guard rails" that help employees make the right decisions. Unfortunately, statistics

show that employees do not believe in their company's values, and managers are disengaged, creating disengaged workers. These cultural deficiencies impact valuations, margins, talent recruitment, and productivity.

Helping boards and CEOs embrace culture should be part of managing risk, improving valuation, and achieving strategic success. These intangible assets can now be measured across an organization. As the CEO's primary duties are to drive performance and mitigate risk to improve valuation, it only makes sense that culture, a critical performance driver should be measured on both the CEO and board's dashboard.

Just as individuals should go for an annual physical, businesses should be reviewing their culture in the same way. Collecting the data on the health of your organization's culture can help to identify barriers and make corrections to ensure the effective execution of strategies and satisfying the expectations of your customers and shareholders. Having the courage and will to learn as fast as you can in this rapidly changing and complex world is the only way to ensure value creation.

Very often, an important component of this process becomes coaching and mentoring the CEO. The creation of a CEO dashboard that identifies priorities will be accretive to the future growth of the organization. This mentoring focuses on enhancing the ability for effective strategic communication with the board of directors as well as with the executive team. Prioritizing the utilization of CEO energy additionally creates the desired momentum for the recruitment of the next generation of C-suite officers.

Additionally, board members who should sharpen certain board skills can be coached, to increase that individual's productivity. A lack of improvement,

however, should result in the director not getting re-nominated. Re-nomination should not be a given.

Change is hard. However, self-reflection will stimulate discussion in a highly constructive manner and provide recommendations for board optimization and effectiveness. Highly functioning, engaged boards do all they can to up their game. Board assessments, run most confidentially and engagingly, are a crucial tool that will provide value to the board and increase shareholder value.

In turn, a brief case study of a successful board assessment, referred to as unblocking the arteries, follows:

The client: a global, diversified materials distribution company with over 2,000 employees. It is listed on the NYSE and has a history of challenges from activist groups.

The board chair was the first to emphasize the importance of independent data and research regarding the board and the dynamics between the board chair and CEO. The board chair aimed to foster true excellence within the board. We recognized the need to systematize several governance and leadership processes and saw an opportunity to enhance value through improved strategic communications and leadership development.

Challenge:

- Determine the true state of board management and board governance skills of the full board, individual directors, and committee chairs.
- Elevate the communications between the board chair and the CEO.
- Deepen the CEO's perspectives on global revenue growth, shareholder value, and employee relations.

Solution:

- Derive analytical insights from a board assessment with prioritized customized questions about board member collaboration that reflected the highest standards of accountability, strategic thinking, a commitment to creating a culture of trust, board/management dynamics, and a dedication to continuous learning.
- Strategic communications to the board were prepared as needed on behalf of the chair.
- New and improved alignment with current regulatory oversight standards and institutional investor expectations.
- Refinement of key elements in the Nom/Gov and Audit committee charters.
- Faster turnaround time for the review of board minutes.
- An innovative annual board education curriculum.
- A regularly scheduled and agenda-driven board chair/CEO conversation.

- CEO mentoring every week in one-hour sessions.

Results:

- In one year, the board experienced the requisite refreshment, and a new Nom/Gov chair was named.
- A strengthened board culture created a more robust energy in the boardroom and positive results company-wide.
- Continuous learning became part of the board's DNA.

In summation, boards, as well as organizations, are most successful when firmly rooted in mission-driven core values and creating long-term sustainable value for customers and shareholders. Boards must stay engaged and create and maintain a culture of constructive challenge and competence. An effective board is especially critical in today's challenging regulatory environment, particularly in the realms of strategy and succession planning.



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Stuart Levine & Associates has been building strong cultures through strategic thinking, best-practice governance models and increasing CEO and executive leadership capacity for over 30 years at companies like Verizon, Barclays Bank, Bill & Melinda Gates Foundation, The Howard Hughes Corporation, Juniper Networks, MasterCard, Saatchi & Saatchi and Montefiore Medical Center.

Mr. Levine has received the “Entrepreneur of the Year” award from Ernst & Young and Inc. Magazine. In 2011 and 2012, the National Association of Corporate Directors named him to the “Directorship 100,” recognizing him as one of the most influential directors in the governance community, and appointed him to the NACD Nominating/Governance Advisory Council.

He was the former global CEO of Dale Carnegie & Associates, Inc., which operated in 72 countries, and has served on over 17 boards, including the Nominating & Governance Committee and Audit Committee of Broadridge Financial Solutions.