

BB The Bank Board Letter

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Making the grade: Do your directors deserve an A+?

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Board assessments and peer evaluations are Sarbanes-Oxley best practices for community banks, but board members are often unclear on the process and CEOs can be a little bit leery of the outcome.

A board assessment is an evaluation by each board member of how well the board is doing its job of overseeing the operations of the bank and fulfilling its responsibilities. The results of the board assessment should be summarized in such a way as to obscure individual board member comments and be presented in writing to the board.

A peer evaluation, on the other hand, is an evaluation of each individual director's performance on the board. The results should also be summarized in such a way as to obscure individual board member comments and be presented in writing to the individual board member. But while the chairman of the board often discusses board member evaluations with each board member, the peer evaluations should be kept confidential and not discussed with the full board.

Board assessments and peer evaluations are performed to improve overall corporate governance processes, enhance board communication and improve decision-making of the board. The results of board assessments can also assist the nomination committee in identifying potential board members whose skill sets complement the existing board.

Peer evaluations can improve a board member's effectiveness and identify training needs for each member.

The board assessment and peer evaluation process may be extended to the board committees to improve committee member performance and communication among committee members, as well as improve decision-making of each committee.

The board of directors should first be educated on the process of conducting board assessments and peer evaluations

in order to set expectations, thus ensuring a successful outcome. The board should then decide if it wants to conduct a board assessment, peer evaluation or both.

Next, the board should decide whether it will need external assistance or if someone internally is capable of conducting the assessments and evaluations.

Board assessment questionnaires are then formulated to allow board members to rate such topics as:

- Alignment of board's actions with the bank's strategic initiatives.

- Board participation in the planning process.

- Corporate governance processes.

- Level of communication among board members.

- Effectiveness of board committees.

Peer evaluation questionnaires focus on each individual director and evaluate such things as:

- Leadership style.

- Value as a team member.

- Teamwork.

- Quality of judgment.

- Communication with other board members.

- Level of participation.

The process should be constructed to be as non-threatening as possible. Many times boards seek external assistance to conduct the board assessments and peer evaluations to help remove any biases and prejudices from the process and to maintain confidentiality of results.

Board assessments and peer evaluations are best practices that can transform board behaviors and board dynamics that ultimately improve the overall corporate governance of the bank.

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