

# THE DILEMMA

## *Q: What are the pros and cons of board peer evaluations?*

Some boards have explored using peer evaluations to improve their effectiveness, assist with director recruitment and to help individual members develop and bring greater value to their roles. However, proposing the implementation of peer reviews can make some directors deeply uncomfortable, so it is important to introduce the idea carefully, appreciating that some colleagues may be resistant.

In fact, peer reviews may not be suitable for all boards. If many of the directors are relatively new, they may not have had time to get to know one another sufficiently to provide constructive feedback. Likewise, if the board does not have a board-assessment process in place, evaluating the board as a whole, rather than individual directors, may be the logical first step. Once evaluation has had time to become part of the board culture, peer reviews may be considered.

According to Sue MacKenzie, a Calgary-based director who sits on several boards in the oil and gas sector, it is important to be clear about your objectives if you decide to introduce peer reviews. "Defining what your board is looking to achieve through the process is key. My experience is that boards that undertake peer reviews as a means to enhance the effectiveness of not only the individual directors, but coincidentally the entire board, are headed in the right direction."

Russel Marcoux, a director with Skyxe (the Saskatoon Airport Authority) agrees, and said his board had two core objectives when it introduced peer reviews. "We wanted to provide our directors with some legitimate feedback to assist in identifying areas where improvements in their participation and contributions would be beneficial. A second objective was that, in the event that a director is not contributing or



HEATHER WILSON  
ICD'S DIRECTOR  
OF RESEARCH SERVICES

participating in a satisfactory manner, the chair and vice-chair would have the input of the entire board to help confirm, or refute, their perceived areas of concern."

Maintaining confidentiality throughout the process is key. Marcoux says that directors were assured that "the evaluations would be confidential and only the chair and vice-chair would see the results. If there are themes that are evident through repetitive or similar comments from other directors, then these comments are summarized and presented to the director being evaluated in a way that the feedback cannot be traced back to the source[s]."

Marcoux also recommends that the process be manageable. Skyxe's board agreed that the questions should be simple and focused, and the overall evaluation format short and to the point. They circulated only 12 questions.

“We believe that if the format or the process is too onerous, directors will lose interest or focus, and provide rushed responses resulting in inaccurate, irrelevant or less meaningful responses.”

MacKenzie suggests that boards design the process so that it reflects the purpose of the evaluation. Formats vary and may include verbal interviews, surveys, numerical scales, open-ended questions, a skills-matrix chart, or written questions about behavioural attributes.

“In my view, if you design it in a way that honours your intent and suits your unique board, then you increase the probability of quality results.”

One question that MacKenzie finds particularly helpful for gathering feedback is: “What one thing could X do to take his/her board performance to a higher level?” It’s forward-looking and specific,” she says.

Once the evaluations are complete, it is important that the feedback provided be useful and focused on improving performance. Directors may become cynical about an evaluation process that does not help the board or assist individual directors to become

more effective. Here the board chair can play a critical role.

“My experience is that nothing beats a one-on-one, face-to-face conversation with the board chair,” MacKenzie says. “He or she is key to providing additional context and nuance to the results, as needed. And it can be a great rapport builder.”

Chairs can also emphasize the importance of the evaluation process as new directors are brought on board. If the expectations around director assessment are set during the orientation process, then directors will know that performance evaluations are part of the board culture and will not be surprised, or perhaps discomfited, by the prospect.

Cornell Wright, a Toronto-based partner at Torys LLP who regularly advises boards on corporate governance, notes that directors should also have the opportunity to review the chair’s leadership of the board as part of any evaluation process.

“The effectiveness of the board depends to a significant extent on the chair,” he notes. “One of the chair’s key roles is making sure that the board

and its committees are getting the most out of individual directors. To that end, the board chair should be actively monitoring and addressing any underperformance issues on the board during the year as those issues arise and not leaving them unaddressed until an end-of-year review process.”

As boards implement peer reviews, it is also important to review the assessment process itself from time to time. Boards should provide their views on what is working well and what could be improved, so that the reviews continue to contribute to the development of both individual directors and the board as a whole.

One cautionary note to bear in mind, advises Wright, is that the results of a director evaluation process could be used in litigation. “If the board’s integrity, diligence or effectiveness were an issue in litigation, information from the evaluation process could potentially be used against the company and the board. For that reason, some companies opt for a more informal process, which produces less easily discoverable information.” ■

## DIRECTORLENS

- Peer reviews may not be suitable for all boards. Those with several new members or without an overall evaluation process may want to wait before introducing peer reviews.
- When implementing peer assessments, be clear about the objective.
- Ensure that the feedback provided is kept confidential.
- Design the process to reflect the purpose the board has established for the peer evaluation.
- Make sure the feedback is provided effectively and focused on improving performance by both the individual director and the board.

*Send your comments or ideas to:*

*Heather Wilson*

*Director of Research Services*

*boardinfo@icd.ca*

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