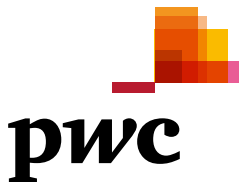


Evaluation

*Evaluation requires
a clear scope*



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Introduction

Self-evaluation because no one else is going to do it

The Dutch Corporate Governance Code identifies self-evaluation as a best practice within the framework of the activities performed by the Supervisory Board. Evaluation is necessary, and you have to do it yourself because no one else is going to do it. After all, employees are evaluated by their supervisors; these managers are evaluated by the Executive Board; the Board is evaluated by the Supervisory Board, and the Supervisory Board members are evaluated by?

That's right, by themselves.

Self-evaluation is not a new phenomenon and many organisations already carry out robust self-evaluation processes. We have now also gained a lot of relevant experience as an external facilitator. I would like to share a few of my insights and experiences with you.

Effective evaluation is difficult

I already knew that effective evaluation is difficult, and I have also experienced this in practice. Thorough preparation is key. I sometimes see Supervisory Board members starting the process without having a good plan, and without knowing what the results of the evaluation should bring for them.



Self-evaluation is not without obligations; it is a process that comes with consequences.

However, it is certainly not easy for Supervisory Board members to evaluate and discuss their own performance and that of their colleagues.


‘Why is it so difficult at our age and with all our experience?’ one SB member sighed during one of our Supervisory Board sessions, which dealt with the subject of self-evaluation. ‘So the Supervisory Board also has a comfort zone, and it’s difficult to step out of it.’

A good Supervisory Board is one that readily evaluates itself

I have also learned that good Supervisory Boards readily evaluate themselves and don’t need too much structure when doing so. They are quite quick to call upon external facilitators, even though they might not really need them. On the other hand, boards that are less effective actually need this structure, but are less likely to call upon external facilitators.

An evaluation is only complete once it has been well documented

The third lesson I want to share with you is that evaluations are only complete once they have been documented. It is not enough to simply add a few sentences to the report of the Supervisory Board, stating that the evaluation has been carried out and went well. Because no one else will subject the SB to periodic evaluations, it is important to say how you did this and what the outcome was. Accountability is part of any mature and well-functioning SB. This booklet is an update to our previous publication about self-evaluation. The previous brochure paid close attention to the theoretical aspect. Although theory has not been ignored altogether here, this booklet pays a lot more attention to practical experiences and dilemmas. We hope this edition helps bring the self-evaluation process to maturity.



Ruud Kok
Managing Partner
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Evaluation requires a clear scope



Evaluation involves reflection and assessment

(Self-)evaluation is a joint process involving reviews, reflection, assessment and learning. Reflection involves reviewing performance without making value judgements. What did we want to achieve, what did we do to achieve this as a team and how did each team member contribute? Reflection is needed in order to learn, change track and to stimulate further development. Reflection highlights the **relational** side of performance.

Assessment is a measurement process; valuing the result and the efforts made to realise it. Have the targets been achieved? How do we qualify actual team performance? Assessment focuses more on the **procedural** aspect; the extent to which agreements have been met, alignment between the agenda and the minutes, the effectiveness of the provision of information and of decision-making procedures.

Evaluation is about rules, procedures and relationships

Following on from this, we have identified four dimensions relating to the effectiveness of governance during self-evaluations.

Institutional (how was it conceived?):

At institutional level, it involves questions such as: which requirements must the institute meet? What are the statutory tasks, responsibilities and authorisations? Does governance function in accordance with laws and codes, and how is nomination and dismissal arranged?

Procedural (does it work?): At procedural level, it is about which agreements have been made and which procedures have been established, and to what extent the SB complies with these procedures. What is the agreed number of meetings per year? How has the provision of information, procedure and decisionmaking been arranged?

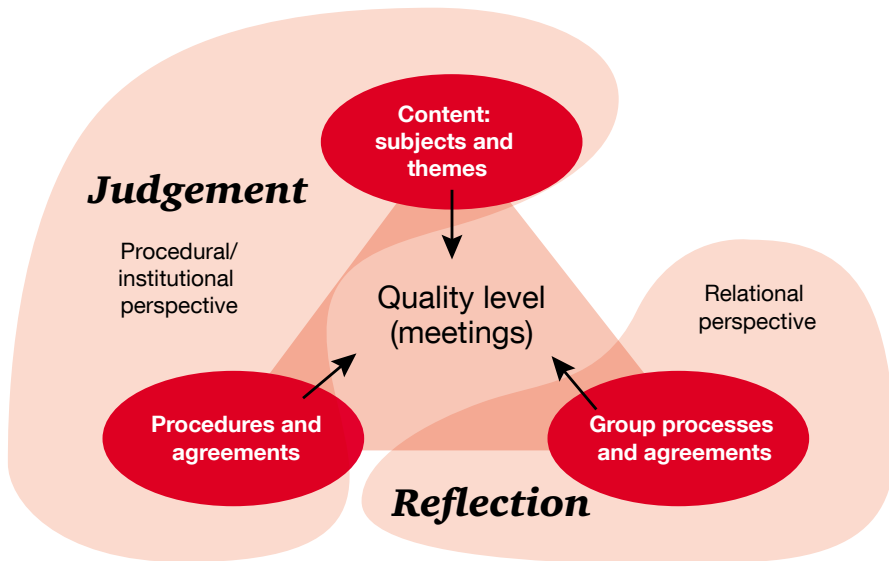
Relational (what's it really like?):

At relational level, it is about the 'unwritten' rules that describe how members of the SB interact with each other. This relates to behaviour, power, cooperation and influence.

Individual:

At the individual level, it is about how individual members function within the group.

Figure 1 The various dimensions





The various dimensions are closely related and are important in their own right. Particular attention should be given to group dynamics, and the relational and individual dimensions. After all, SBs are special because all members rarely start at the same time - new members arrive, while others depart. This unbalances the team slightly each time, and complete stability is rarely achieved. Factors such as status, informal leadership and role perception change every time. Self-evaluation is about opening up such behaviour to discussion and about reflecting on habits and patterns (which often occur unconsciously). Evaluating group dynamics is about the collective group, but also about the behaviour of individuals in that process.

SBs can opt to evaluate themselves at all possible levels: institutional, procedural, relational and individual. The scope can also be restricted by evaluating in phases: the first self-evaluation can focus on procedural and institutional aspects of the board as a whole, and a new evaluation process can be started a couple of years later where more attention is given to the individual and relational aspects of performance. For example, if members are not yet familiar enough with each other to provide individual feedback. Considering the limited amount of time that members can dedicate to their role on the Supervisory Board, we recommend implementing a robust self-evaluation process once every two or three years.

Evaluation involves including all roles of the Supervisory Board



Our approach to self-evaluation involves examining the performance of the SB from three roles that are closely related: the role of employer for the Executive Board (employer), the role of regulator (supervisor) and the role of advisor (sounding board).

In its role of *employer*, the SB is involved with:

- Selecting, appointing and dismissing executives.
- Rewarding executives.
- Assessing the performance of executives.

In its role as *supervisor*, the SB is responsible for:

- Monitoring the policy of the Executive Board, realising the company's strategic objectives and the manner in which the Executive Board implements company policy.

- Monitoring the general state of affairs within the company.
- Approving decisions by the Executive Board about important topics which, in accordance with legislation and/or statutes, must be presented to the SB.

In its role as *sounding board*, the SB:

- Advises the board in relation to major strategic and operational decisions, such as involvement in mergers, takeovers, partnerships, restructuring and investments.
- Provides solicited and unsolicited advice, e.g. in case of disputes of conflicting interests.

In addition to these three roles and the topics recommended by the Corporate Governance Codes, the SB can also decide to give a variety of topics a more prominent place on the agenda.



Topics addressed in a self-evaluation could include:

- Interaction between the SB and the Executive Board
- Effectiveness of SB team
- Feedback about individual contribution to SB
- Evaluation of the Chairman of the SB
- Optimisation of corporate governance
- Functioning of committees
- Programme for continuous learning
- Relationship between strategy, management and organisation (structure)

Our approach (see next chapter) places great attention to the party that initiated the evaluation (in practice, this is normally the Chairman of the SB). We make agreements about the scope of the self-evaluation and the themes that need to be addressed when doing so. However, we also think the effectiveness of the Chairman of the SB must also be part of the evaluation. The Chairman of the SB plays an important role in the dynamics of the SB and is a unifying factor in a team that does not come together very often, and therefore has a fairly relaxed collaboration structure (see also page 9).

Evaluation also has pitfalls



Pitfalls can be encountered during evaluation or when performing self-reflection. A list of potential pitfalls is provided below.

- *Evaluating because it is necessary*

Self-evaluation by Supervisory Board members who are not intrinsically motivated is of little purpose and causes people to ‘simply tick the boxes’.

- *Not enough time*

The time allocated to self-evaluation must be reasonably in proportion to the overall time available to the Supervisory Board members.

- *Formal evaluation due to a fear of breach in confidentiality*

Evaluation is not about ‘airing one’s dirty laundry’. Fear of ‘leaks’ can prevent people from performing evaluations, or only implementing them formally.

- *Evaluation as leverage*

Avoid evaluations being carried out to simply substantiate decisions that have already been made.

- *Hierarchy between members of the Supervisory Board*

The Supervisory Board often also features an informal but decisive hierarchy (‘pecking order’). This could prevent members from feeling free enough to air constructive criticism about their colleagues.



Evaluation takes place in four phases



Phase 0: Who initiated the evaluation?

Firstly, the evaluation process must be objective and not be dominated by input from one particular member, including the Chairman. Furthermore, the Chairman's performance is crucial to the effectiveness of the board as a whole. As a result, he/she becomes an essential part of the evaluation.

If the Chairman were also to assume a lead role in the evaluation process, then he/she would be performing a dual role. After all, irrespective of the organisation, there will always be a certain level of tension when evaluating or assessing 'the boss'. So why would this be any different for a body such as the SB?

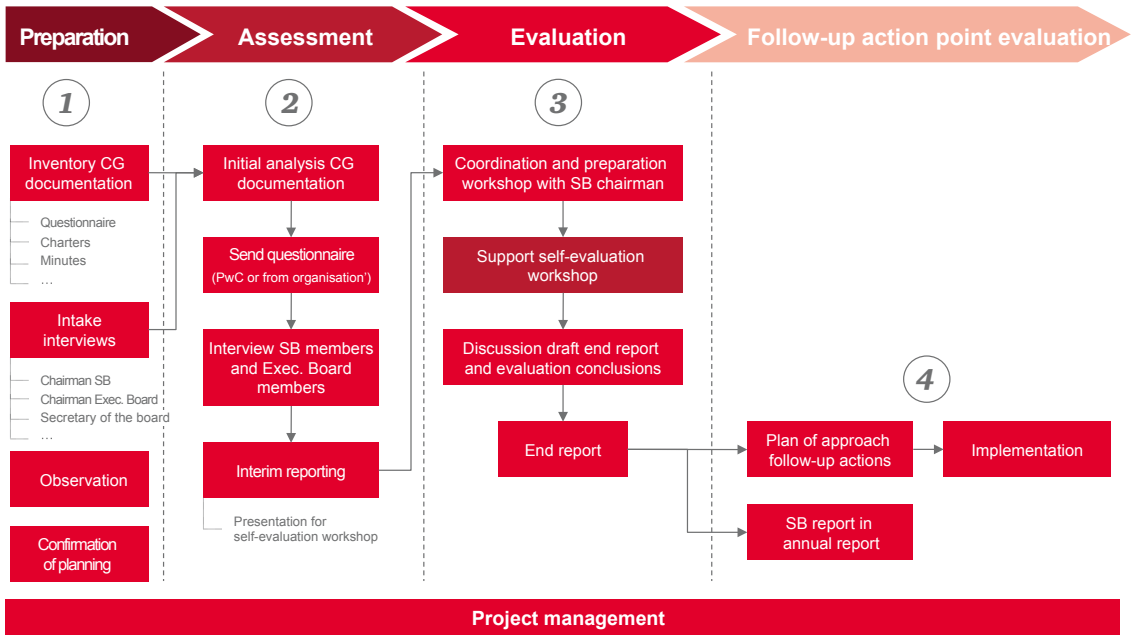
With this in mind, it is therefore wise to introduce a process assistant – an (external) facilitator. Even if a facilitator is brought in, the evaluation is still a self-evaluation. After all, the SB is the owner of the process. This raises the question: who initiates the evaluation for the facilitator?

In practice, the Chairman of the SB almost automatically initiates (and often also executes) the evaluation. However, we suggest assigning this task to the Vice Chairman, possibly together with, and assisted by, the Secretary of the Board. This prevents the Chairman from having to perform the above-mentioned dual role.

Phase 1: Preparation

During this phase, the facilitator enters into discussions with the Chairman or Vice Chairman of the SB to understand and determine the objectives for the evaluation and to confirm the planning. In general, the facilitator performs an interview, also with the Secretary of the Board and the Chairman of the SB (see also page 21).

Figure 2 PwC approach SB self-evaluation process



In this phase, involved parties determine the scope of the evaluation. Is it only about the performance of the group as a whole? Is it about the institutional and procedural aspects, or does the performance of individual Supervisory Board members need to be assessed? As discussed on page 9, there may be good reason to restrict the scope of the evaluation, but we personally favour a broad scope; this means, besides the institutional aspects, the relational aspects of the SB's performance must also be included in the evaluation. And that it is not only about the collective performance of the board, but also the role of individuals within it. After all, the performance of the group as a whole is greatly determined by the performance and competencies of individuals.

During this preparation phase, the facilitator will also make an inventory of the available corporate governance documentation, such as SB regulations and minutes from recent meetings. The facilitator will also determine the questionnaire he/she sends to the Supervisory Board members, which they can use to express themselves about the performance of the board (see also page 17).

An observation could also take place in this phase, where the facilitator attends a regular meeting of the SB to observe what goes on during such meetings.

We recommend making clear agreements about the type of evaluation in advance. The SB could decide to only share feedback about the performance of individual member with the Chairman, who will then share it face-to face. The SB could also decide to do this openly in a plenary session. In this case, it is important to deal with this in a prudent and respectful manner.

Phase 2: Assessment

This phase involves the facilitator analysing the performance of the SB. This is partly done on the basis of existing corporate governance documentation. We examine the structure of policies and regulations, the relationship between regulations and the annual agenda, the relationship between the board's profile and its competencies, alignment between the agenda and minutes of meetings, the effectiveness of procedures related to meetings, etc.

This phase also involves individual discussions with members of the SB and collecting feedback from relevant stakeholders, particularly the Executive Board. Although this may appear to contradict the principle of self-evaluation, the Supervisory Board does not function in a vacuum and we think it is essential to give parties, particularly those that benefit from an effective SB, the opportunity to provide feedback.

This phase leads to an interim report featuring our findings, which will be shared with everyone during the plenary evaluation session.

Naturally, the Executive Board is the SB's most prominent stakeholder but, if carefully organised, input from the works council, external regulators or major long-term shareholders could also be useful.

The 'toolkit for facilitators'

Observation:

When observations are carried out during meetings of the SB, we look at the verbal and non-verbal expressions of all members. Observation allows us to gain an insight into group dynamics. Who has a lot to say? Who allows others to interrupt them? How does the Chairman respond to this?

We notice that Supervisory Board members often do not realise that their behaviour is not consistent with what they want. For instance, in an interview, someone could say that they give enough opportunities to others during meetings, but observations might prove otherwise.

Questionnaire:

We use questionnaires to collect the opinions of SB members and possibly other stakeholders about the performance of the Supervisory Board. In this case, for example, it relates to opinions about the quality of information, meeting techniques, allocation of tasks, monitoring processes, etc. Questionnaires can also be used to gain a (partial) insight into the relational dimension of performance. The questionnaire will always be tailor-made based on initial interviews with the Chairman.

Questionnaires often feature statements, which respondents must respond to using a scale from one to five, and open questions that stakeholders can answer in their own words. We also ask people to share their opinion about the performance of fellow Supervisory Board Members. This should preferably take place by asking (positive) questions about the strengths of colleagues as well as points for improvement (development-oriented).

The questionnaire is not a tool for determining the actual performance of the SB. It is actually an instrument to determine the formation of options and to highlight issues that could be important for the SB concerned. A wide range of answers could, for instance, mean that there are differences of opinion about certain topics.

Interviews

Questionnaires already give us a lot of information, but personal contact is actually an essential part of effective reflection. We can use interviews to better understand the opinions of individual Supervisory Board members. Judgements about the performance of fellow Supervisory Board members can be better expressed in a conversation than on paper. Interviews are sometimes also used to double-check our observations.

Phase 3: The evaluation session

This phase involves all members of the SB being part of a session in order to jointly discuss all observations and findings and to draw conclusions about the performance of the board as a whole. The facilitator then uses this as a basis to formulate an agenda featuring core topics that have come to the fore in interviews and questionnaires.

An evaluation session normally lasts two or three hours and consists of two parts. All members of the SB attend the first part, together with the Executive Board. This part involves giving feedback about the findings of the questionnaire and the additional interviews. Members of the Executive Board are able to immediately explain or add their observations. The SB has the opportunity to ask questions.

Members of the Executive Board are present during the first part because their direct feedback has a lot more impact on the SB than when the feedback is conveyed by the facilitator on behalf of stakeholders. Ideally, self-evaluation should be a discussion between members of the SB and their stakeholders.

During the second part, only members of the SB will be present to reflect about their personal performance.

This phase reveals how seriously the board is taking the self-evaluation. Will members dare to be independent and open, and will the Chairman of the SB be able to completely let go of his/her role as Chairman during this session? A few ground rules for the session need to be established so people can give each other effective feedback. Supervisory Board members must dare to address one another and not do this via the facilitator. They can explain what they think and clarify this using examples. Other members can respond to this so a debate is started about the performance of the board in this specific area of attention.

This is therefore the most difficult part of the self-evaluation process for the facilitator. Once in the plenary session, will individual SB members stand by the statements they made in the preparation phase? Or will other factors come into play, which cause SB members to provide different feedback?

The facilitator must address this by introducing topics into the discussion as general themes, so Supervisory Board members can reflect on them in order to get to the core of the issue. It is more effective for the facilitator to address individual Supervisory Board members directly about their feedback and to ask them to go into greater detail. Clear agreements are essential if this 'approach' is to be successful. The facilitator must receive enough space and the concerned SB must be aware that this may happen.

The success of an evaluation session is primarily determined by group dynamics. It is actually the most 'exciting' part of the evaluation process. A good evaluation session requires participants to be open and willing to be vulnerable. It is very important for the facilitator to establish good agreements about this with the concerned SB.





Phase 4: Follow up

The evaluation process is still not complete once the evaluation session has come to an end. Ultimately, it is about what the SB actually does with the conclusions and the established agreements. If effective, the evaluation will lead to a plan of action. In this phase, it would be wise to think about how the SB wants to report the matter in its annual statement.

SBs often decide to perform follow-up without using a facilitator. They think this makes sense, but we have noticed that plans of action tend to be watered down over time. It would therefore make sense to appoint an ‘owner’ or a ‘promoter’ to oversee the implementation of the desired changes.

Everyone has their own role in an evaluation



The Chairman

Evaluations are often scheduled by the Chairman. Together with the SB, he/she also determines the scope of the evaluation and the way in which it will be implemented. Preparations for the evaluation will be made by the facilitator together with the Chairman (or the Vice Chairman – see page 13), and support will be provided by the Secretary of the Board. This is important in order to properly understand the objectives of the evaluation and to improve acceptance by the SB.

A lot has been written about the role of the Chairman. Some experts say the performance of the Chairman plays a decisive role in the effectiveness of the SB. Either way, it must be possible to openly discuss the performance of the Chairman if the evaluation process is to be successful.

That is why it is so important for the Chairman to understand that he/she simply becomes a regular member of the SB during the evaluation process. Once a regular member, and part of the evaluation session, the Chairman should put aside the chairman's gavel. This role now passes to the facilitator.

This appears to be a simple requirement but, in practice, we notice that it is difficult for some chairmen to leave their role and concede control to the 'day chairman'.

The Chairman of the SB must step aside during the evaluation process.

The Secretary

The Chairman of the SB normally prepares the self-evaluation together with the Secretary of the Board. The Secretary is responsible for collecting documentation, making arrangements and sending out questionnaires. The Secretary of the SB is always or often present during meetings of the SB, and therefore possesses the most information about the performance of the SB. However, the Secretary normally remains in the background and will rarely share his/her opinion on this front. That is why we always involve the Secretary in the assessment phase (page 15), when interviews are being carried out.



There can be major differences in seniority between Secretaries of Boards. The position is normally held by the head of Legal Affairs, but we have also seen secretaries who perform the role on a temporary basis - over a two-year period - as part of a management development programme. We almost always include the performance of the Secretary in the evaluation. After all, the Secretary supports the SB when it comes to supplying information, as well as following up and enforcing action points. In several evaluations, we have noticed that the relationship between the Chairman of the SB and the Secretary is an important factor in helping the SB to function effectively.

The ‘invisible’ secretary has eyes and ears.

The facilitator

A facilitator must be given enough space to supervise the evaluation process. This not only relates to performing interviews and issuing the questionnaire, but it also involves being granted access to meetings so the meeting process and the behaviour of members can be observed.

It is crucial for the facilitator to be in control of the evaluation session so the Chairman of the SB simply becomes part of the whole process.

The question is: who would be the ideal facilitator? Could this be a prominent and experienced Supervisory Board member who fully understands the dynamics within the board? Or could this be a qualified psychologist, who can analyse how the human brain works? First and foremost, we think the ideal facilitator must be independent; he/she must have no hierarchical or functional relationship with any of the SB members. The facilitator should preferably have some experience of board management. This experience need not be extensive; the most important thing is for the facilitator to understand the process. In addition, the facilitator must be capable of expressing his/her observations and feedback in clear and specific terms. The facilitator must dare to convey negative feedback, while attempting to assist the board by analysing the problem and helping to find a solution.

All in all, neutrality and wilfulness are important characteristics for a good facilitator. Nonetheless, the key to success for the facilitator lies in the willingness of the complete SB (and their stakeholders involved in the process) to reflect honestly about their own performance, whereby giving the facilitator enough freedom to lead the discussion and address 'prickly' issues.

The success of the facilitator is primarily determined by the willingness of the SB to relinquish control of the process.

An evaluation is only complete once it has been well documented



The SB (and the facilitator) make sure results of the evaluation process are recorded. The ‘evaluation file’ contains interview reports, completed questionnaires and observations made by the facilitator. This documentation forms the basis for the evaluation session. The minutes for this session, as well as the conclusions, recommendations and final report, complement the file.

However, the Corporate Governance Code stipulates that the SB must also report externally about how the evaluation was carried out. And most SBs also do so, but only in a concise way and without mentioning conclusions or actions. Research by Lückcrath and Scheltema¹ also concluded that SB reports offer little insight into the supervisory activities carried out.

We think confidence in SBs would increase if they explained their activities to the outside world, which includes how they performed the self-evaluation. An annual report should be a report of the dialogue that companies have with their stakeholders; this should also be the case for the SB report. The report must thus confirm that evaluation has taken place, how it happened and which improvements in governance have followed as a result of the evaluation.

Questions about the evaluation can also be asked during the shareholders meeting.



¹ Mijntje Lückcrath-Rovers and Margot Scheltema, The SB report from: Yearbook Corporate Governance, Kluwer 2011/2012



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<http://www.pwc.nl/en/corporate-governance.html>

Supervisory Board toolbox

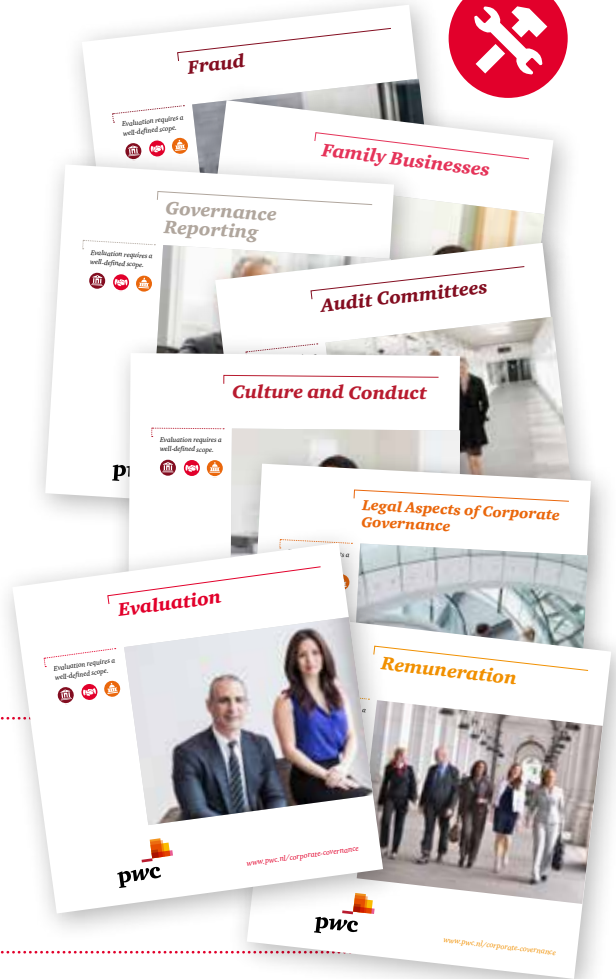


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