



Evaluating Your Board's Effectiveness For Continued Success

by [Steve Brown](#)  [board of directors](#) [management](#)

Summary: The board of directors plays a crucial role in steering community financial institutions and helping them shape their local economies. To ensure continuous improvement, institutions should measure their board's effectiveness regularly. We give you some tips on how to review your board's composition, structure, and performance, and identify opportunities for improvement.

Did you know that during peak times, there are 5.4K aircraft in US skies — sometimes vertically separated by as little as 1K feet? Fortunately, they are not only flying by sight, as Federal Aviation Administration air traffic controllers provide navigational support from the ground.

Of course, many community financial institutions (CFIs), like all public companies, have their own “air traffic controllers” to help them navigate the ever-changing financial landscape: the board of directors.

Given the critical role the board plays in providing a governance framework and working with senior management to ensure its implementation, CFIs should be sure to monitor and evaluate their boards' effectiveness regularly.

What should you be evaluating?

As each institution's board will have different oversight duties, the evaluation needs to be tailored. However, a board evaluation should **focus on these three core areas**.

1. **People.** Do you have the right board composition? While structures and processes were the focus of past board evaluations, this has now shifted to getting the right people in the job. Compiling a skills matrix could help determine whether you have the [diversity of skills](#), gender, race, and perspectives that are key to [providing the “independent judgment” and “credible challenge”](#) the Federal Deposit Insurance Corporation calls for. You also need to ensure you have planned for the succession and refreshment of board members, to adapt to the changing environment and your institution's strategic direction.
2. **Processes.** Before you start reviewing the processes, you need to ask the following question — Is the role of the board clearly defined? Once that is answered, are the right structures in place to enable it to perform effectively? Committees, agendas, minutes, and reporting are all essential to the smooth running of meetings. Equally important is the ability of directors to have candid and constructive debate, with agreed-upon decision-making and conflict resolution processes.
3. **Performance.** Is the board executing its core responsibilities? These include hiring and retaining the CEO and planning for succession; establishing the institution's short- and long-term objectives; understanding its risk profile and setting risk limits; adopting operating policies and monitoring compliance, and ensuring the institution helps to meet its community's credit needs. Finally, are directors performing these duties with honesty, integrity, and confidentiality, guarding against

conflict of interest? Annual appraisal, along with board professional development, should provide feedback and support board performance.

What makes a good evaluation process?

1. A successful evaluation process requires careful planning and each director's commitment to give open and honest feedback. Incorporating these four elements will ensure you get meaningful results.
2. **A tailored process.** Although there are some must-have areas for evaluation, the focus should be specific to the current needs of the institution and the board. These may vary from year-to-year, depending on an institution's priorities.
3. **In-depth interviews.** Individual interviews, better if conducted by an external expert, are far more likely to yield real insights than the traditional annual survey. Confidentiality is key if board members are to be candid. Capturing the views of senior management executives, who regularly interact with the board, will provide further depth to the evaluation.
4. **Actionable results.** Feedback from the interviews should be aggregated and presented to the board, and include specific, actionable suggestions. Working through the recommendations as a group to develop goals for improvement should ensure the team's alignment. Assign each goal a timeframe and a task owner, and review the progress regularly.
5. **Disclosure.** Sharing aspects of the board evaluation with investors helps build credibility and shows the board's commitment to continuous improvement. A survey of evaluation processes, conducted by Korn Ferry, found that [61% of respondents disclosed the key topics of their evaluations](#), but only 21% reported any changes made following the evaluation. The greater the communication, the better the process.

Undertaking a thoughtful, board-effectiveness assessment process should provide CFIs with an opportunity to reflect and align around key issues. Now is a perfect time to gain clarity on how to strengthen procedures and practices, for an even more finely-tuned board.

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ECONOMY & RATES

Rates As Of: 03/22/2022 07:07AM (GMT-0700)

Treasury	Yields	MTD Chg	YTD Chg
3M	0.54	0.19	0.48
6M	0.95	0.26	0.76
1Y	1.40	0.41	1.03
2Y	2.20	0.77	1.46
5Y	2.40	0.68	1.13
10Y	2.39	0.55	0.87
30Y	2.60	0.44	0.70
FF Market	FF Disc	IOER (Interest on Excess Reserves)	
0.33	0.50	0.40	

SOFR	Prime	OBFR (Overnight Bank Funding Rate)
0.29	3.50	0.32

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