

Board Development and Evaluation: Implementing an Effective Program



SEATTLE-NORTHWEST CHAPTER
National Association of Corporate
Directors

Craig Cole: Program Chairperson

November 16, 2004
6:15 p.m. – 8:30 p.m.

Today's Objectives

Arnie Prentice – Chapter Board Chairman



- Introduce NACD
- Gain Insights into Today's Board Governance Issues
- Have an Opportunity to Exchange Views with Fellow Directors

The National Association of Corporate Directors



- Established in 1977, NACD is the only national organization dedicated to director education and improving board performance.
- 20,000 members and customers, from the Fortune 100 through smaller public, private, and non-profit companies
- 19 Chapters Nationwide

Upcoming



January 18, 2004

**Morning Program:
7:15am - 9:00am**

The Compensation Committee: Structure, Approach & Philosophy

Linda Killinger
Program Chair

www.nacdnw.org



National Program —Last Month



October 17-19, 2004

NACD National Conference
**Board Leadership:
Evolution or Revolution**

Mayflower Hotel,
Washington D.C.

www.nacdonline.org



Board Leadership: Evolution or Revolution

NATIONAL ASSOCIATION OF CORPORATE DIRECTORS
2004 ANNUAL CORPORATE GOVERNANCE CONFERENCE

October 17-19, 2004

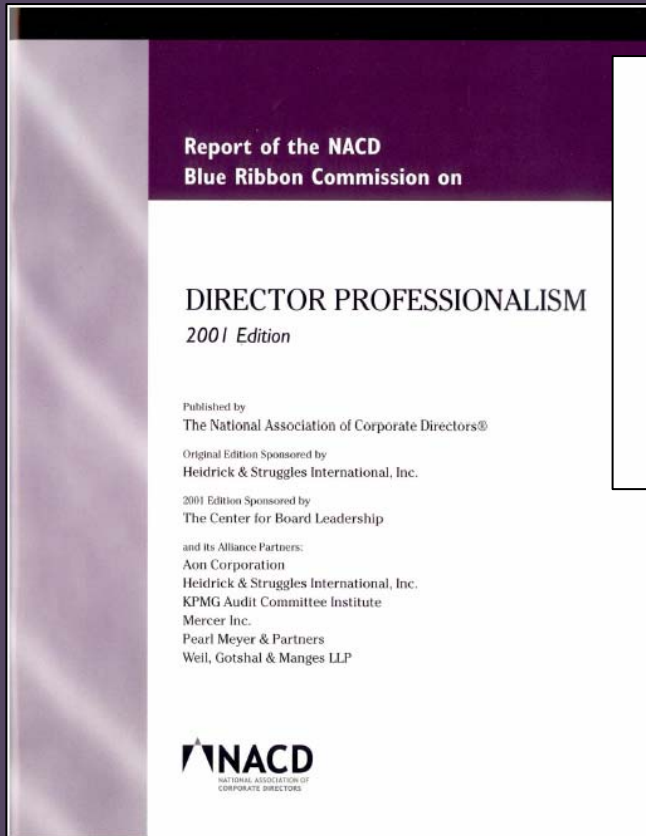
The Mayflower Hotel • Washington, DC

Pre-conference Seminars: October 16-17, 2004



Accredited by Institutional Shareholder Services as a Preferred Boardroom Education Program

NACD Resources



Board Evaluation Practicalities: Creating a Board Self-Assessment Methodology

Excerpted from Katherine McG. Sullivan and Holly J. Gregory
Paper presented at American Society of
Corporate Secretaries' *Issues Update 1995* (Nov. 13, 1995)

Self-assessment is emerging as an important tool for improving board effectiveness in overseeing corporate performance. A well-designed and well-executed self-assessment by the board should strengthen directors' understanding of their role and facilitate board cohesiveness and performance.

Defining Substantive Parameters for Board Assessment

It is axiomatic that carrying out a board assessment should have a...

Board Evaluation Form

**Rate the following statements in relation to our Board of Directors.
Rank answers from 1, Not Performing, to 5, Outstanding Performance.**

- _____ 1. The Board knows and understands the company's beliefs, values, philosophy, mission, strategic plan, and business plan, and reflects this understanding on key issues throughout the year.
- _____ 2. The Board has and follows procedures for effective meetings.
- _____ 3. Board meetings are conducted in a manner that ensures open communication, meaningful participation, and timely resolutions of issues.
- _____ 4. Board members receive timely minutes or drafts.

Blue Ribbon Report on Board Evaluation-Reprints Available Soon

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Board Development and Evaluation: Implementing an Effective Program

Panelists:

Craig Cole, Moderator

Phyllis J. Campbell

Daniel Evans

Kenneth P. Mortimer, Ph.D.

Preliminaries: Reasons for this Program

Craig Cole, Moderator

- Board members tend to be highly accomplished people whose intellect and insights are valued. They also have big egos and can be resistant to criticism.
- How do you get boards, and individual directors, to take a serious look at their personal and collective performance, and to focus on continuous learning?

Preliminaries, continued

- A recent NACD Blue Ribbon Commission Report on Board Evaluation concluded that, although not widespread, and while fraught with pitfalls, board evaluation would lead to better corporate governance and enhancement of shareholder value. More recently, the S.E.C. approved proposed NYSE listing rules that specify that boards and board committees should conduct “a self-evaluation” at least annually.

Preliminaries, continued

- **Whether driven by good business practice or regulatory pressure, therefore, it is increasingly evident that accountability at the board level will be addressed.**

Preliminaries, continued

Key Questions

- Can boards effectively evaluate themselves?
- How do you handle the interpersonal delicacies inherent in evaluating director performance?
- Is it important to stress continuous learning?
- Does any of this really impact board performance?

Implementing an Effective Program-

What's the issue?

Phyllis J. Campbell

What's the issue?

- **The "outside-in" phenomenon**
- **Board culture**
- **Board members ego(s)**

Implementing an Effective Program-

What's the issue?

What are some solutions?

- Role of a self-assessment* process
- Duty of curiosity/continuous learning
- Holding each other to highest standards

Implementing an Effective Program-

What's the issue?

Key assessment/self-assessment* questions

- Am I adding value to Board/Company issues as a whole?
- Am I keeping up with the Company/industry strategic issues and challenges?
- Am I challenging my/management/colleagues' assumptions on a regular basis?
- Do I pose "catalytic questions and thoughts" in the Board room?
- Am I a good listener in the Board room?
- How open am I to critical feedback on my performance?

Implementing an Effective Program: University Board Development and Effectiveness

Kenneth P. Mortimer

Senior Associate

**National Center for Higher Education Management Systems
(NCHEMS)**

President Emeritus

**Western Washington University
University of Hawaii**

Implementing an Effective Program: University Board Development and Effectiveness

- **Universities are unique kinds of organizations**
- **They have all the elements of**
 - **Bureaucracy**
 - **Collegiality**
 - **Politics**

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- **Universities have unique characteristics**
 - **Goals are ambiguous**
 - ✦ There is no “bottom line”
 - **Goals are contested**
 - ✦ Priorities are controversial
 - ✦ Research and undergraduate education are perceived to be in conflict
 - **Participation in governance is fluid and issue dependent**
 - **Decisions flow they don't get made**
 - **Professional control the “Product”**

Implementing an Effective Program: University Board Development and Effectiveness

- **Public Boards are chosen by external actors**
 - **Governors appoint, Senates confirm**
 - **Some Boards are elected Mi, Nv, Ne, Col
Community Colleges**
 - **Minnesota Legislature elects Regents at U. Minn**
 - **What criteria are relevant?**

Implementing an Effective Program: University Board Development and Effectiveness

■ Key Issues in Board Effectiveness

- Does the Board spend its time on the most significant issues?
 - ✦ Strategic futures vs. operations
- How does the board distinguish between policy and administration?
- Does the Board emulate behaviors it seeks to encourage in others?
 - ✦ Board evaluation
 - ✦ Civility in discourse
 - ✦ Primacy of the whole vs. its parts

Implementing an Effective Program: University Board Development and Effectiveness

■ Operational Problems

- Most public Boards have to operate in the “sunshine”
- Conflict of interest statutes, ethics rulings and personal disclosure requirements are troublesome
- Are Trustee/Regents chosen to represent or deliberate?
- Presidents work for Boards – they are not members

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■ Board Effectiveness (continued)

- Do the President and the Board have consensus about rules of engagement?
- What is the role of the Board?
- What matters is the President to handle?
- How can the Board be kept informed without being perceived as “meddling”?

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■ Rules of Engagement

- Avoid surprises
- Develop strategic agendas
- Respect the separate roles of the Board and the President
- Communicate regularly and often
- Support the President in both professional and personal life

Implementing an Effective Program- The Right Questions

Daniel J. Evans

- **Examples**
 - **Doing it Right**
 - **Doing it Wrong**

Panelists



Craig Cole, Moderator

Craig Cole is president and CEO of Brown & Cole Stores of Bellingham, a regional supermarket chain with 31 stores in Washington. He has been a local elected official and has served on numerous state and local boards and commissions. He now serves on the Board of Regents of the University of Washington. Craig also serves on the Board of Directors of Puget Energy (the state's largest energy utility) and chairs its Governance and Public Affairs Committee. Previously he was Chair of the Board of Associated Grocers, Inc., the Seattle-based grocery wholesaler.



Phyllis J. Campbell

Phyllis J. Campbell is the President and CEO of the Seattle Foundation and is on the boards of Safeco Insurance, Alaska Airlines, and Puget Energy. She previously served as President of US Bank of Washington from 1993 to 2001. She led the bank through its growth period, having integrated several major mergers and acquisitions. In her distinguished 28-year career in banking, she held progressively responsible positions of leadership, starting at the Management Trainee level. Phyllis holds an MBA from the University of Washington's Executive MBA Program. She received her BA in Business Administration from Washington State University, and is a graduate of the Pacific Coast Banking School at the University of Washington, as well as Stanford University's 1997 Executive Management Program. Campbell also holds honorary doctorates from Whitworth College and Gonzaga University.



Daniel J. Evans

Daniel J. Evans became Governor of the State of Washington in 1965, serving an unprecedented three terms. He was named "One of Ten Outstanding Governors of the 20th Century" by a University of Michigan study. He assumed the presidency of The Evergreen State College in Olympia in 1977. From 1981 to 1983 he served as Chairman of the Pacific Northwest Electric Power and Conservation Planning Council. From 1983 until 1989 served in the U.S. Senate. For five years he was a political analyst for KIRO TV and radio. Currently, he heads his own consulting firm of Daniel J. Evans Associates with an office at Foster Pepper and Shefelman. In addition, he serves on numerous civic boards, including the Parkinson's Foundation Board and The Nature Conservancy of Washington. He has served on the corporate boards of Puget Sound Energy, Burlington Northern Santa Fe and currently serves on the boards of Cray, Inc., Costco, Western Wireless Corporation and the Archimedes Technology Group. He is a Fellow of the American Academy of Arts and Sciences. In 1993 he was appointed to the Board of Regents of the University of Washington and was re-appointed in 1999.



Ken Mortimer

Ken Mortimer joined the National Center for Higher Education Management Systems (NCHEMS) as a Senior Associate on July 1, 2002 but has been on the NCHEMS Board since 1980. He served as President of two universities -- Western Washington University from 1988-1993 and University of Hawaii from 1993-2001. He has written five books or monographs and published dozens of articles and book chapters on governance and policy issues. Ken holds an A.B. in English from the University of Pennsylvania, an M.B.A. in International Business from their Wharton School, and a Ph.D. in Higher Education from the University of California at Berkeley. He currently serves as a Director of Puget Energy.

Notes
