

GOVERNANCE COMMITTEE MEETING (OPEN)

AGENDA ITEM 8

ATTACHMENT 8-I

BOARD MEMBER SELF-PERFORMANCE REVIEW

PRESENTED BY: Linda Platisha and Kristina Veaco

July 9, 2009

**Recommendation to the
Governance Committee and Board of Directors
For a Board and Committee Performance Evaluation**

Approach and Strategy

What is the ultimate objective of a board evaluation?

The goal of the process is to make the board stronger and more effective in carrying out its critical oversight responsibilities.

Why do an evaluation?

1. Pursuant to the provisions of the Governance Charter, the Committee is required, on an annual basis, to conduct a performance self-evaluation, an evaluation of the Board as a whole, and evaluation of the Audit and Investment Committees.
2. Since the New York Stock Exchange mandated that all listed companies conduct such evaluations, other public, private, and non-profit companies have opted to do so as a “best practice.”

What are the benefits of a formal Board evaluation?

1. Performance assessment – Identify areas of strength and weakness
2. Continuous improvement – By benchmarking the board’s performance, improvement can be measured over time.
3. Composition – Tailor the overall composition of various committees to best serve corporate objectives.
4. Alignment – Better alignment of the board with the overall corporate strategy.
5. Communication – Provide an objective, fact-based vehicle for board member communications regarding performance and responsibility.
6. Transparency – Improve board transparency.

What should the evaluation include?

1. An assessment of the entire board's performance.
2. An assessment of each committee’s performance.
3. An *optional* assessment of each director’s performance.

What are the various approaches to the evaluation process?

There are essentially 5 approaches to board evaluation; (1) Boardroom discussion; (2) Questionnaires; (3) Interview based evaluation; (4) Third party evaluation; and (5) Web-based evaluation.

1. **Boardroom Discussion**. In this approach, time is set aside at a board meeting for discussion among the directors on how the board is doing. This discussion is generally led by the board chair and/or the chair of the Governance Committee. The discussion can either be unstructured, allowing directors to articulate how they view the performance of the Board and its Committees and how they believe performance can be improved, or in other cases, an agenda is prepared in advance in order to focus the directors on specific performance factors.

Research indicates that this process is used by boards to fulfill the requirements of an evaluation, but it is the least effective in achieving the goals of an effective board evaluation.

2. **Questionnaire**. This involves the development of one questionnaire for the Board as a whole and possibly a supplement for each Board Committee. The contents are generally reviewed by the directors and/or the Board Chair and then provided to the directors either electronically or in hard copy. The directors then anonymously provide their written assessments which are compiled and provided to the Board for discussion. **See exhibit 1 as an example of a questionnaire.**

This process is very cost effective and does not require a significant time commitment on the part of the directors. However, this process is only as good as the questions that are prepared and asked. The outcome and subsequent recommendations will only be as good as the quality and experience of the person analyzing the data.

3. **Interview-Based Evaluation**. An interview guide that sets forth specific identified topics is reviewed in advance by the board members and each director is interviewed by either board leadership or another person such as an outside consultant. Interviews are conducted privately on an anonymous basis. Results are compiled and presented and discussed with the board. Usually an action plan is developed to address the issues and modifications that are needed to go forward.

The only way to make this objective and productive is to hire an outside consultant. If an outside consultant is used to conduct the interviews, they will generally formulate the interview guide, evaluate the results, and make recommendations. If this is done, the process essentially becomes a third party evaluation.

4. **Third Party Evaluation.** This evaluation process is conducted by an independent third party. There are consultants and companies that are experienced and specialize in the board evaluation process. These companies usually use a combination of questionnaires and interviews to complete the process and write reports that analyze these results. They then provide recommendations as to how to improve board performance going forward.

Of all the evaluation approaches, the third party evaluation would best support State Fund's goal of transparency, combine the best features of both questionnaires and interviews, and ultimately make the board stronger and more effective in carrying out its critical oversight responsibilities. However, the companies that provide this service are relatively expensive and the process is lengthy from the initial consultation until final reports are issued.

5. **Web-based Evaluation.** In this evaluation process, the board selects from a range of questionnaires depending on the type of evaluation it is interested in such as full board, committee, etc. The board members complete the on-line questionnaires and when they are finished, a series of reports are automatically generated for the board to consider.

The web-based approach is the most cost effective and efficient to utilize, but the standardize questionnaires used by most providers do not lend themselves to State Fund's business model and so the end result may not adequately support State Fund's goals. Because State Fund is a unique entity, the recommendation would be to find a company that will tailor the software to State Fund's specific needs.

Who should collect and analyze the information?

The most appropriate approach depends on State Fund's needs and resources.

1. The governance committee, the organization's human resources executive or an in-house designated administrator.
2. A specialized consulting firm.
3. A large consulting or legal firm.

To whom should the results be disseminated?

1. All board members should receive a copy of the overall "board performance" report.
2. Committee reports can be given to the specific committees, unless the board wants to distribute them more widely.
3. Individual reports should only be shared with the individual.

What is the optimum use for the results?

1. Present the Board with the findings and recommendations from the evaluation.

2. Discuss the results and incorporate those results into the plans and goals for the coming year.
3. Use the results to assess the achievement of the board's previous plans.

Recommended Providers

It is recommended that that following caliber of providers be considered and asked to put together a proposal and/or presentation for the Board's consideration.

Questionnaires, Interview-Based Evaluation and/or Third Party Evaluation

1. Dortch Consulting
2. Veaco Group
3. Fenwick & West LLP

Web-based Evaluations

1. BoardEvals (this web-based company will customize to specifications)

EXHIBIT 1

BOARD EVALUATION**

****This is not a complete list of all questions, but an example of types of questions and format.**

**1 = Needs Significant Improvement 2 = Needs Improvement 3 = Consistently Good
4 = Outstanding**

A. Self-Evaluation of Governance Committee	1	2	3	4
1. The Committee has defined its role and responsibilities				
2. The Committee understands the vision, mission, and objectives of State Fund				
3. The composition of the Committee is appropriate				
4. The number and length of Committee meetings is appropriate				
5. The Committee meetings are conducted in a manner which ensures open communication and meaningful participation				
6. The amount of information received is appropriate for discussion and decision making purposes				
7. The materials are received sufficiently in advance to adequately prepare for meetings				
8. The Committee identifies, prioritizes, and schedules those issues that it believes should be discussed and/or reviewed by the Committee on a regular basis				
9. The Committee responds adequately and timely to matters reported to the Committee				
10. The quality, sufficiency, and currency of the information received from management is adequate				
11. The Committee reports to the Board in a clear and succinct manner, highlighting the important issues it faces				
B. Evaluation of the Board	1	2	3	4
1. The Board has an understanding of its role, responsibilities, and the scope of its authority				
2. Board members understand the vision, mission, and objectives of State Fund				
3. The Board has clear goals resulting from relevant and realistic strategic planning and specific performance objectives				
4. The Board has identified information it requires on a regular basis including information by which to benchmark the strategic plan				
5. The Board is effective at monitoring operational and financial performance, the integrity of the processes involved, and State Fund's internal controls				
6. There is a proper mix of expertise reflected on the Board				
7. The Board members receive training in corporate governance matters and continuing education on other issues				
8. The Board has defined and communicated its expectations concerning director responsibilities				
9. The Board is effective as a team				

10. The Board effectively manages the conduct of Board business				
11. The Board responds adequately and timely to matters reported and recommended by the Committees				
12. The Board works well with State Fund's chief executive, other executives, and managers.				
13. The Board, its members, and State Fund's chief executive work to create a culture that creates transparency and frank and open discussion				
14. Board meetings are productive				
15. Sufficient meeting time is devoted to the discussion of corporate performance and review of strategic issues				
16. Non-committee members are kept informed about the deliberations of each committee				
17. The information prepared for the Board is timely and the level of of detail, content and focus are adequate				
C. Evaluation of Other Committees	1	2	3	4
1. The Committee has defined its role and responsibilities				
4. The Committee understands the vision, mission, and objectives of State Fund				
3. The composition of the Committee is appropriate				
4. The number and length of Committee meetings is appropriate				
5. The Committee meetings are conducted in a manner that ensures open communications and meaningful participation				
6. The amount of information received is appropriate for discussion and decision making purposes				
10. The materials are received sufficiently in advance to adequately prepare for meetings				
11. The Committee identifies, prioritizes, and schedules those issues that it believes should be discussed and/or reviewed by the Committee on a regular basis				
The Committee responds adequately and timely to matters reported to the Committee				
10. The quality, sufficiency, and currency of the information received from management is adequate				
11. The Committee reports to the Board in a clear and succinct manner, highlighting the important issues it faces				
D. Self-Evaluation of Individual Board Members***	1	2	3	4
1. I have a good interpersonal relationship with other directors.				
2. I understand the vision, mission, and objectives of State Fund.				
3. My skills/expertise provide an unique contribution to the Board's overall effectiveness.				
4. I understand the difference between governing and managing a corporate enterprise and avoid intruding on management's responsibilities				
5. The Committee meetings are conducted in a manner that ensures open communications and meaningful participation				
6. I think, speak and act independently in relation to the decisions the Board must take.				

7. I come to the meetings well prepared – having done the necessary prior reading and having consulted other directors and/or management if required				
8. I facilitate and encourage change when it would improve the Board's processes.				
9. I make a measured and an appropriate contribution to the Board's discussions and deliberations				
10. I have a good knowledge of the responsibilities of State Fund's management team and am able to consult with members of management, as required				
11. I respect the confidentiality of business information and our Board's deliberations				
12 I understand the legal and fiduciary obligations of the individual directors and the Board as a whole.				
12. I expect high levels of performance from myself, my fellow directors and management				
13. I insist that I and the other directors receive the information necessary for decision making				
14. I make a meaningful contribution when I serve on a Board committee				

*****A similar questionnaire should be provided for peer review of the directors in conjunction with the self-evaluation**