

Evaluations Add Value for Private-Company Boards

At the September 2015 NACD Global Board Leaders' Summit, one of many discussions at the private-company board forum focused on board refreshment. *Why do it? What are the motivators? How should boards go about it?*

While many of the more than 100 private company directors in attendance talked openly about the need for refreshing the board to bring in diversity of thought and opinion, add young (and young-at-heart) directors, and introduce new skill sets to the board, the actual practice of private company board evaluations is comparatively lacking.

According to recent NACD governance surveys, 87 percent of public company directors said that their companies conduct full board evaluations, 73 percent go down to the committee level and 38 percent assess directors individually. Meanwhile, private companies are playing catch up. Only 62 percent of private company directors said that they conduct a full board evaluation, 30 percent do so at the committee level and 32 percent do so for individual directors.

Of course, private companies can conduct evaluations at their prerogative or as deemed in charters, by-laws, or shareholder agreements, but those attending the Summit highlighted several reasons why evaluations can be critical to enhancing oversight and improving board effectiveness.

First, evaluations can help the board to **vet company—and boardroom—culture**. What is the culture? How is it reflected in the board, its composition, and demeanor? As culture changes at the company and within management, is the board adjusting as well? Coalescing around evaluations also helps the board, both individually and collectively, to build an “understanding of shared accountability, mission, objectives, and execution.”

Second, determining how to structure and carry out an evaluation, conducted internally or by a third party, helps to spark **a process for assessing the board**.

“It motivates current board members,” said one director.



A 360-degree evaluation, including peer evaluations, of course, will bring in the widest perspective, but it is also the most difficult to carry out from a time and cost standpoint. Several forum attendees said that the deep relationships on private company boards make such intense evaluations challenging.

This same process also “helps [directors] to understand the gaps or holes at the board level and the appropriate use of board talent. Who is being underutilized?” Here, management’s feedback and analysis on what it deems to be necessary board skills can play a role: How engaged is the board generally? What about diversity and expertise?

Third, institutionalizing board evaluation processes encourages management and the board to **have those difficult discussions**. Evaluations can force the term-limit or tenure discussion, or at least introduce the notion of board and director life cycles.

For private company boards with independent and outside directors, evaluations “keep directors honest about their paid positions,” one attendee emphasized. The evaluation process and results can also ferret out factions within the board and allow for an assessment of how voting blocs help or hinder company progress.

Lastly, the evaluation process surfaces the discussion on **“who should continue to lead and why,”** starting with the board itself and then on to management and senior executives.

Of course, an evaluation for its own sake does little good. Writing for the International Finance Corp., Simon Osborne stresses that “evaluations must be supportive of the board and the directors, whilst being rigorous and evenhanded in order to give the best results.”

Originally published in December 2015

About the KPMG Board Leadership Center

The KPMG Board Leadership Center champions outstanding corporate governance to help drive long-term corporate value and enhance investor confidence. The Center engages with directors and business leaders to help articulate their challenges and promote continuous improvement. Drawing on insights from KPMG professionals and governance experts worldwide, the Center delivers actionable thought leadership—on risk and strategy, talent and technology, globalization and compliance, financial reporting and audit quality, and more—all through a board lens. Learn more about the Board Leadership Center’s programs, resources, and insights for directors at [KPMG.com/BLC](https://kpmg.com/BLC).

Private Company Boards

The KPMG Private Markets Group focuses on serving privately-held entities and their boards with insight from our global network of professionals, offering integrated audit, tax, and advisory services tailored to meet the needs of private enterprises, including private equity- and venture capital-backed companies. Learn more at [KPMG.com/us/PrivateMarketsGroup](https://kpmg.com/us/PrivateMarketsGroup).

kpmg.com