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BOARD EVALUATION

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A board effectiveness review, or evaluation, should provide an important catalyst for discussion and change, encouraging directors to step back from the day-to-day business in order to question the board's contribution to the long-term health and success of the company, and its preparation for future challenges.

Clearly this is not a compliance function. Conducting or commissioning a review is a critical decision; the process demands a combination of skills, maturity, and courage from the board; wisdom and perspective from the reviewer; and integrity and legitimacy from the process.

Should the review be tailored or generic?

The effectiveness of the board is influenced by a combination of interactions and processes that are dynamic by nature, and which can be difficult to assess. There is no meaningful generic template; strengths and weaknesses are multifaceted and interwoven, and there are a number of dominating factors which impact all reviews, including, *inter alia*:

Life cycle

- age, stage, size, and complexity
- the clarity of purpose and strategy
- changes in the landscape
- corporate history and culture
- ability to balance value creation, risk taking, and control
- division of strategic and operational issues
- quality of executive leadership and succession planning
- access to resources
- stakeholder pressures

Structure

- Board, committees and executive committee size, composition, and tenure
- clarity of roles, responsibilities, and independence
- the use of formal/informal time and the quality of information

The impact of culture and dynamics

- Executive and non-executive director dynamics and relationships
- speed of decision-making, levels of bureaucracy, and management of conflicts
- Board leadership, individual approach, and contribution.

What should the review cover?

An honest examination of the board's ability to achieve its objectives allows directors to question their approach to, inter alia, the development of strategy, the oversight of risk and control, the management of performance, leadership and succession, and the consideration of shareholder and stakeholder views. It provides an opportunity to explore the influences on the board's culture and dynamics; the quality of its debate; the contribution of individuals and the board as a whole; the impact of leadership roles such as the chair, senior independent director (SID), committee chairs, and CEO; and the board's size and composition. It also encourages an assessment of

the board's processes, its calendar and agendas throughout the year, the quality of information, and the strength of its secretariat support.

When should the review be commissioned?

An external review will take more time to organise and conduct than an internal review; both need to be planned within the board calendar. Although there is often pressure to conduct a review around the timetable of the company's published annual report and accounts, it is more important to work backwards from a date during the year when the board will have adequate time to discuss and consider its findings and recommendations.

How long should it take?

Given that this is a snapshot in time, it is useful to conduct the review within a limited and defined period. This enables directors to draw on the same experiences, and refer back to the same occasions, for example, the last board or committee meetings, or strategic awayday.

Whose responsibility is it to commission the review?

Although it is usually the chair who commissions the review (the effectiveness of the board is the chair's responsibility), it is important that all directors are supportive of the process. Good communication with the board regarding the approach and purpose, the process and time commitment, the necessary level of candour, and the feedback methodology will enhance the quality of input and level of engagement.

Experience, skill, and chemistry are critical, and, if external, the board has to be comfortable that an individual or firm will be able to maximise the long-term benefits of the review and satisfied that the reviewer can conduct the work with a sufficiently objective and independent view. The chair may decide to ask a potential reviewer to meet additional directors, such as the SID, and/or the board as a whole, before making the final decision.

What approach should be adopted?

There are a number of different approaches, which vary from the sole use of an online questionnaire to an in-depth psychoanalytical assessment. The

approach taken will partly depend on why the review is taking place – to be compliant, to respond to external pressure, to benchmark the board's performance, to facilitate change, or to enhance the board's contribution and long-term effectiveness.

It is important that the chair has the right to choose, in consultation with colleagues, the appropriate methodology for the board, and has the opportunity to assess the skill, experience, and chemistry of the reviewer. Reviewers will have different interpretations of their role, the way in which they conduct the review, what topics will be covered, and what questions will be asked. Some will work with a template, which predetermines the role of the board and best practice for directors; others will design a bespoke review for every company. Some will attend to the historic and/or current effectiveness of the board; others will be forward looking, testing the board's preparation for the future.

A number of methodologies will be focused on tangible, visible outcomes such as board papers, processes, and structures; others will explore less tangible influences such as behaviour, relationships, culture, and dynamics. There are no right or wrong methodologies, but there are different and decisive board needs, levels of engagement, required skills and competencies, and board outcomes.

Specific questions to ask the reviewer include:

- How will the internal or external reviewer interact with directors before, during, and after the review?
- Which board papers and related documents should be disclosed?
- Which participants should be included, and how much time will they need to invest in the review?
- What will the review cost?
- How will we measure the longer impact and value?

What advantages do interviews offer?

A well-conducted interview process is an effective and flexible methodology which can produce high-quality evidence. A thoughtful and relevant interview, which is conducted within a confidential forum, encourages directors to talk openly about issues and concerns on an anonymous basis, to consider answers to questions that may not have been posed by the chair, colleagues, or shareholders, and to continue

the consideration of issues after the interview, and often after the review itself has finished.

Interviews work well on a semi-structured basis, where the interviewer has a framework of topics to be covered (and therefore a basis for comparison between directors), but enough flexibility to vary the emphasis. The intimacy of such an interview, and the benefits thereof, depend on the confidence and confidentiality of the reviewer, but should provide a unique opportunity to discuss the performance of the board, its culture and dynamics, and the use of its time.

How much should the interviewer know about the company and the board?

A properly contextualised interview requires substantial forethought; the interviewer should know enough about the company, the external environment within which it is operating (for example, the impact of changing regulation, a fast-moving competitive landscape, or a sector in decline), and the director's background, and role of the director within the board, to be able to maximise the relevance of the questions and understand the context of the answers.

Will directors be open and honest?

An experienced interviewer will help directors feel at ease at the start of the interview, usually by explaining the context of the review, the framework for the discussion, and the parameters of confidentiality and anonymity. The skill of the interviewer is key; the ability to listen to what is said and what is not said, distinguish certainty from uncertainty, and understand the range of factors shaping nuance and interpersonal dynamics is vital if sensitive material and candour are to be handled correctly.

Specific questions for the interviewer include:

- Has the reviewer worked or studied in relevant fields which involve information gathering, analysis, and presentation? In a comprehensive review, a huge amount of evidence is gathered, demanding high-quality analysis and skilled written and verbal presentation.

- Can the reviewer communicate difficult messages in a constructive way? Most boards demonstrate areas of both strength and weakness, and the emergent themes need to be presented in a way which encourages the directors to engage with the issues and agree on resolutions.
- Has the reviewer spent a significant amount of time in board and committee meetings, either as a director, attendee, or an adviser? It is helpful to know that the reviewer understands the context within which they are operating, is knowledgeable about the topics, and can empathise with the issues that arise.
- Is the reviewer independent and objective? Ongoing business relationships with the company, or ties with particular board members, most importantly with the chair, may inhibit directors from candid discussion and influence interpretation of the findings.

Should board observation be allowed?

A comprehensive review should include observation of the board and committee meetings, strategy days, and private sessions; this helps the reviewer observe the board dispassionately (rather than relying solely on personal accounts), triangulate the evidence given during the interviews, and prioritise strengths and weaknesses.

It also facilitates important observations concerning, *inter alia*, the physical characteristics of the boardroom, the interplay between directors, and the relationship between the quality of information provided to directors in advance of the meetings and the related discussion.

Will the observer change the dynamics in the room?

Occasionally directors are concerned that colleagues will behave differently whilst being observed. This is rare; most board meetings include the presence of external advisers and attendees, and directors are not usually self-conscious or shy. More important is the ability to trust the reviewer with private and often highly sensitive information; confidentiality is paramount, and the chair needs assurance that the information will be used only within the context of the review.

Who will participate in the review?

The majority of information usually comes from the board directors (both executive and non-executive) and the company secretary; this ensures that all the participants have a holistic and comprehensive view of the work and dynamics of the board. However, it can be helpful to include executives below the board, particularly if they have good exposure to the directors. Retiring, newly appointed directors, active shareholders, and regulators, can also offer useful perspectives.

How should the findings be communicated to the board?

Depending on the approach taken, the findings and recommendations from a review can relate to a variety of influences on the board's effectiveness and can be communicated in a number of ways. Written documents, board presentations, individual meetings, collective discussions, and workshops present a variety of opportunities for constructive criticism and objective debate.

What should be disclosed in the annual report?

There are a variety of review methodologies available, which increases the need for reporting clarity and transparency. Part of this disclosure is easily communicated in writing, specifically the name of the individual and/or the firm conducting the review, any existing relationships with the company and the board (and potential conflicts of interest), and a description of the process undertaken; this is often disclosed in both the chair's statement and the corporate governance section.

It is more difficult to describe any confidential or sensitive themes which have emerged, particularly if they relate to individual directors, and the culture and dynamics of the board. The chair and the senior independent director may decide to give major shareholders and regulators a verbal update on these issues, and any agreed changes, when appropriate. Occasionally the reviewer may be asked to contribute to these meetings.