

Utilising a high-quality board review as a catalyst to improve your board effectiveness and performance

Description

One of the key characteristics of a highly effective board team is that they have a genuine *performance culture*, have a very realistic understanding of what the board's strengths & weaknesses are today and have a strong commitment to continually improve their effectiveness & performance as an overall board team and as individual board members. An annual board review or evaluation is the key tool that is used by high-performing board teams to benchmark their current position in the board effectiveness/performance curve and establish a roadmap of key areas to improve. *A board review, when conducted properly and embraced by the board, can act as a very powerful catalyst to provide a very honest constructive appraisal of the board's effectiveness & performance and to help chart the course for a board team to genuinely improve their effectiveness, performance and out-perform for their shareholders & stakeholders.*



So what are the key areas that a board review focuses on ? These include ;

- Board Information Management, Process & Procedures
- Board meeting dynamics & effectiveness
- Quality of board supervision & decision-making
- Strategy
- Board composition, diversity & skillsets



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- Partnership between non-executive and executive board members
 - Performance of individual directors & committees
 - Oversight of financial reporting & internal controls
 - Risk management (including cyber-security, GDPR etc.)

Board reviews typically take three forms as follows ;

External independent board review – in this model, an external board facilitator, working closely with the board chairman, leads the process and independently reviews the current status of the board in the areas outlined above and works with each of the board members to understand the current board effectiveness & performance. Based on detailed questionnaires and one-on-one confidential interviews with each board member, the external board facilitator then develops an overall assessment of the current levels of effectiveness & performance in the board team with a key focus on identifying a sustainable plan to improve the overall board's effectiveness.

Internal board review – in this model, the board chairman, sometimes supported by a senior non-exec board member, leads the process and reviews the current status of the board in the key areas outlined above and works with each of the board members to understand the current board effectiveness & performance. The chairman then develops an overall assessment of the current levels of effectiveness & performance in the board team with a key focus on identifying a sustainable plan to improve the overall board's effectiveness.

“Externally-facilitated” board review – this is effectively a hybrid of the two approaches whereby an external board facilitator supports the chairman in an internal board review. This support could include structuring the overall review process, providing the chairman with a board member questionnaire, reviewing the board information model, assessing the questionnaire responses and helping the chairman to identify the current issues impacting board effectiveness & performance as part of identifying a sustainable improvement plan.

While board reviews have become quite standard over recent years in the PLC sector in developed countries, the adoption of board reviews as a standard board best practice is still surprisingly low in many sectors with even quite large companies, non-profits and state boards not conducting annual board reviews. Even many experienced chairmen, who have served on multiple boards over many years, have not put annual board reviews in place. This was a key factor in the regulations around board reviews for PLCs whereby an external independent board review is required every 3 years followed by internal board reviews. Shareholders and investors in PLCs place a major emphasis on the critical impact of the board on a company's performance and this trend is extending into the private company sector particularly with private equity and large venture capitalists who recognize the critical importance of a highly-effective board in driving significant value creation. In July 2017, the new non-profit and charity governance guidelines in the UK have recommended a similar approach for non-profits in the UK to have an external independent board review every three years followed by internal board reviews annually.

In the initial wave of board reviews, the board review process was extremely focused on corporate governance with very little focus on the people equation of the board and the board's genuine effectiveness & performance. *Progressive approaches to board reviews while still assessing overall standards of corporate governance put the people equation at the heart of the review process.* In the majority of boards, corporate governance standards are strong and it is the people equation that has



~~the main impact on the board's effectiveness & performance. Board teams have also recognized that unless something is measured, you can't understand your current position and identify the areas that need improvement.~~

So what are the factors that have affected the embracing of annual board reviews ? These factors can vary significantly from one organization to another but often comprise ;

Lack of awareness of the benefits – many boards do not have a great understanding of their actual level of effectiveness & performance and the fact that genuine high-performance boards utilize board reviews as their key tool to benchmark their current levels of effectiveness & performance as well as shape their overall sustainable drive for excellence as a board team

Resistance to “opening up” the board for evaluation – a number of boards simply resist any efforts to opening up the board to any form of review or evaluation. My experience has been that many boards who objectively would be categorized as “average to mediocre” in terms of effectiveness & performance, would demonstrate this resistance for fear of having to face up to the outcome of a board review which could have consequences for the board in terms of its composition, leadership and overall expectations going forward.

Complacency & lack of true accountability – some boards genuinely go through the motions and when you cut right to the chase, simply do not move heaven and earth to outperform for their shareholders. The very idea of a board review is an anathema to them as it could demonstrate serious issues in terms of the work-ethic of the board members, the calibre, skillsets and diversity of board members, the leadership demonstrated by the Chairman & CEO, and in some cases the lack of genuine value being added by the board.

Nervousness about the results of a board review – some boards are genuinely nervous of the outcome of a board review and the implications. Many boards have a complex people equation whereby the board have tolerated in many cases serious long-standing issues which have really impacted the board as a team and their effectiveness. In some cases, you will have certain board members pushing for a board review and some board members resisting this. The chairman's leadership is critical here because in the case of an external review or even an “externally-facilitated” board review, an experienced board facilitator will identify serious issues which impact on the board's effectiveness & performance.

Spotlight on chairman's leadership – by its very nature, a board review shines a bright light on the chairman's leadership of the board. Our experience in Board Excellence has been that the chairman has a dis-proportionate impact on the effectiveness & performance of the board. A board review illuminates the chairman's leadership, how he/she leads the board and facilitates its effectiveness & performance. In the vast majority of cases, board reviews are instigated by the chairman and where the chairman genuinely embraces a board review, it sets the tone for the other board members to follow suit and ensure a high-quality board review.

Time commitment of board members – board teams are extremely busy as they progress through the annual board calendar cycle and can legitimately be sensitive to the time commitment needed to support a board review. In practice, it may end up taking a couple hours of each board members time and primarily impacts the chairman and CEO.



Previous experience of poorly conducted board reviews – as with any process with a group of professional complex people, board reviews need to be managed extremely well to deliver on their objectives. A number of experienced board members have been frustrated by previous board reviews which they have either felt to be

- tick-the-box exercises with no genuine commitment to understanding the issues and driving sustainable improvement
- in-effective in the medium to longer term as key actions are not followed through on
- focused around online board effectiveness questionnaires without any one-to-one interview with each board member by the board review leader

While this is probably more prevalent in internal board reviews, you can also have ineffective externally-led board reviews whereby for a variety of factors, the board review process is not optimally handled.

In terms of best practices for board teams in the board review area, I would recommend the following ;

Open discussion at the board – the chairman leads a discussion at the board outlining the benefits of board reviews, the different approaches and the key drivers why the board is exploring conducting annual board reviews. In some cases, the chairman may invite an external experienced board facilitator to provide a short presentation to provide an external perspective on best practices in this area.

Decision to proceed with a board review – it's an important decision for a board team to proceed with their first formal board review process, to understand the implications of this in terms of the different phases of the process, the need for very open and honest discussions to understand the current board effectiveness/performance level, being comfortable with a board review report which may have some uncomfortable assessments/observations and being prepared to embrace & implement key recommendations to improve the board's effectiveness & performance.

Selecting a board review approach – there is no “best” approach in terms of selecting a board review approach in terms of internal, external or externally-facilitated. While there is a lot of value associated with an experienced board facilitator, a well-conducted internal review led by a high-quality chairman and embraced by all the board members can be just as effective. Where an externally-led or externally-facilitated board review can help is where the board is doing its first formal board review or after a series on internal board reviews, would value a fresh external perspective. I have often seen cases as well where an external board review is one of the only mechanisms to address long-standing issues which have held a board back and/or seriously impacted on its effectiveness & performance. Many board directors can hold back on discussing serious sensitive issues in an internal board review and would feel far more comfortable sharing in an anonymous manner with an external board facilitator. I have also seen cases of a board utilize an externally-facilitated board review process as a first step in establishing annual board reviews as a best practice.

Selecting an external board review partner – in the case where a board decide to proceed with an external independent board review or externally-facilitated board review, it's important to assess a range of appropriately qualified providers. It's extremely important that the external board facilitator has a strong board track record themselves (ideally with experience in both non-executive and executive board roles) and can build a high level of chemistry & trust with the board members to enable a very



open and engaging board review process.

Embracing the board review process – where a board genuinely commits to and embraces a board review, it is a very healthy and valuable process that ultimately supports the board team improving their effectiveness & performance and supporting the board delivering outstanding value to their shareholders & stakeholders. To become a genuine high-performance board team, the board must embrace the same challenges and responsibilities that any high-performance sports or executive team embrace.

Commitment to a sustainable action plan – Any board review is ultimately of no value unless the resulting action plan is implemented to drive sustainable and ongoing improvement in the board team's effectiveness & performance. This is where the rubber meets the road and the hard work starts ! This is the true test of any board team because in the busy monthly cycle of board meetings, calls, unforeseen crises etc., it can be very easy to put the board effectiveness action plan on the long finger. It can also be difficult to grasp the nettle on a serious people issues identified in the board review report.

In summary, board reviews are an important best practice which are strongly embraced by high-performance board teams. Board Excellence's core approach to board reviews is based on a passionate belief that a strong commitment by the board to continually improving its effectiveness & performance represents the cornerstone of the ability of the board to deliver significant value to the organisation's shareholders and stakeholders. A high-quality board review, strongly embraced by the board, represents a genuine best-practice for a board in understanding its current strengths & weaknesses and lays the foundation for sustainable long-term improvement in the effectiveness & performance of the board.

*Kieran Moynihan is the managing partner of **Board Excellence** (<https://boardexcellence.ie> & <https://boardexcellence.co.uk>) – supporting boards & directors in Ireland, UK and Europe excel in effectiveness, performance and corporate governance.*

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