Board effectiveness and performance beyond inconsistent, 'tick-box' evaluations

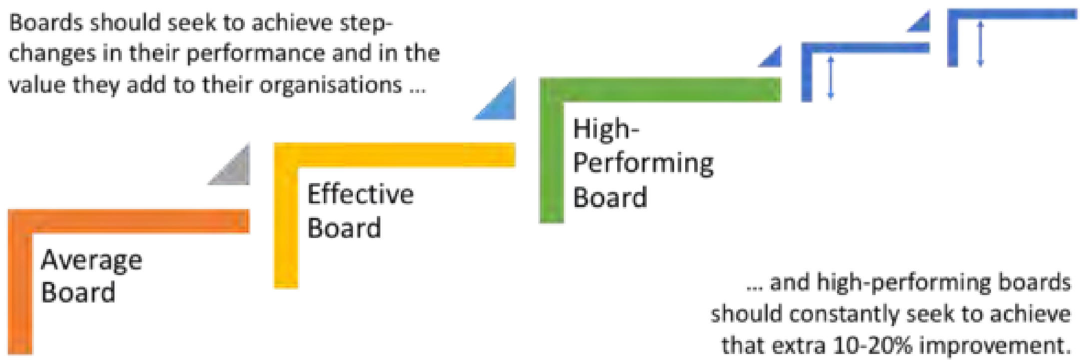
Gaining valuable insights into the DNA and performance of your board and its members over successive periods can add real value for shareholders and stakeholders.

The terms board effectiveness and board performance tend to be associated with, and thought about solely in the context of the annual board evaluation. This is changing, but maybe not as quickly as it should as many boards continue to see the evaluation as an annual, 'bothersome', box-ticking exercise of little value, and many independent providers of board evaluations are too focussed on the bare minimum of what's required under various codes and regulations to simply 'get the job done'.

However, when thoroughly embraced by a board, and conducted professionally by an experienced practitioner, an independent and objective external board evaluation and performance programme establishes a strong foundation upon which to assess the current strengths and challenges within the board and drive a measurable plan of sustained improvement.

The words 'programme' and 'sustained' are critical in the context of this discussion as boards must strive to achieve continuing effectiveness and high performance, not just around annual review time so as to 'tick the box' but throughout recurring annual cycles. Boards are responsible for evaluating the performance of the CEO and ensuring that the performance of the organisation is optimised, so they must also accept that objective evaluation of their own performance, both collectively and individually, is an essential factor in becoming a high-performing team and delivering real and recurring value for their organisation.

Boards should seek to achieve step-changes in their performance and in the value they create on the basis of, among other things, successive evaluation findings and recommendations, so that average boards become effective over time and effective boards become high-performing. Even high-performing boards should have an appetite to constantly achieve an extra 10-20% improvement in their performance.



The current approach to board evaluations tends to be driven by the requirements of different corporate governance codes and regulations which require that boards undertake an annual evaluation of the performance of the board, its committees, the chair and individual directors, and that at least every three years the evaluation be conducted by an external evaluator.

So, for the vast majority of companies required to comply with such codes and regulations, this has translated into two internally-conducted evaluations followed by an evaluation in year three conducted by an external party, or the external in year one followed by two internals, etc.

Internally-conducted evaluations, by their nature, tend to lack objectivity, be driven by questionnaires, the results of which are compiled and summarised by an internal member of staff, and often fail to identify underlying issues in the board's activities, effectiveness and performance. Most directors are less likely to give a low score or provide challenging commentary when the source of the contributions is obvious to an internal party. So internally-conducted evaluation models currently lend little by way of value in understanding either the strengths or weaknesses of the board, or in providing a programme of improvement.

Two internally-conducted processes are then followed by an evaluation conducted by an external evaluator. We all know that there are various providers of such evaluations, many of whom are comfortable delivering basic findings and safe, low-impact recommendations that, in reality, do not support the board in understanding their strengths or weaknesses and the actions they should adopt to step to the next level. It's no surprise then that very few companies retain the same external evaluator for successive evaluations. There are pros and cons to this; the pros include that you get different approaches, perspectives and philosophies each time a different external party is engaged; the cons include a lack of consistency because of those different approaches, perspectives and philosophies which is of no value to a board that needs to step up its performance and is looking for consistent support in developing a programme to help them improve.

So a typical three-year evaluation calendar includes two internal evaluations which lack objectivity and add very little value, and an external evaluation with a practitioner who's typically new to the organisation, therefore with no consistency from evaluation to evaluation and very little contribution by way of intelligence to assist the board in understanding how their performance is evolving over successive periods or indeed what actions are required to achieve a step change.

However, there are boards who are not satisfied with the typical approach and are challenging convention. Progressive board teams are now more likely to seek out external providers who are genuinely committed to engaging thoroughly and constructively with the board, who invest time to understand the DNA of the board, who go that extra mile to identify the critical issues that may be constraining the board, and who provide meaningful solutions based on best practices to empower the board to achieve a step change in their performance. Progressive boards will themselves engage transparently and constructively with their chosen partner on all dimensions of the board's effectiveness and performance from membership, focus, oversight quality and decision-making through to leadership, culture, character and behaviours, and all factors that support or impede these elements.

Board evaluations have been an annual feature of life for the boards of companies listed on main securities markets for many years. The practice is beginning to filter beyond main market companies to those listed on secondary markets including, in the UK, through the Quoted Companies Alliance Corporate Governance Code. Evaluations are also becoming a requirement for certain non-profits and charities.

However, when one considers the number of companies and individual boards in any single jurisdiction that are not required to, and do not voluntarily undertake board evaluations, it's clear that the extent of engagement in board evaluation is still in its infancy.

I believe that as the perception of the value in board evaluations improves and matures, the approach will change quite radically.

I can envisage a time where companies will adopt an engaging medium- to long-term approach to board performance and their engagement in board evaluations and with specialist board support practices will reflect this.

Proven external evaluators will be retained by companies over successive periods to support the board in developing and utilising a form of board performance index which facilitates directors in understanding how actions they take can influence improvements in different aspects of their performance over successive periods, and boards will see the tangible results of their efforts reflected in such an index.

I can see external facilitation and support of internal evaluations increasing from current low levels and retained external providers working more closely with clients on an annual basis to support their internal reviews and in compiling the performance index. This may include conducting a small number of interviews with select directors to ensure objectivity from one year to the next, and the client utilising the provider's questionnaire platform with responses collated and analysed by the provider to ensure confidentiality and independence in compilation of responses and reporting.

In time, as boards embrace the value of objective evaluation, the frequency of external evaluations may also increase thereby ensuring that the board's performance remains elevated throughout the annual calendar of activities and across successive periods.

It's a fact that a highly effective board of directors makes a significant contribution to the success of the organisation beyond its statutory requirements and is a powerful source of added value for shareholders and stakeholders. The benefit of having engaged in and thoroughly embraced an independent, objective, and insightful evaluation, and having followed through on the related findings and recommendations, will very soon become a differentiator between boards who create value and those that don't.

Kieran Moynihan is the managing partner of **Board Excellence** (**www.board-excellence.com**) – supporting boards & directors in Ireland, the UK and internationally excel in effectiveness, performance and corporate governance.

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