

Assessing Board Effectiveness Beyond Compliance



The question of whether to assess board effectiveness has been emphatically answered for listed companies. The May 2010 update to the UK Combined Code requires under its Principle B.6 that “the board should undertake a formal and rigorous annual evaluation of its own performance and that of its committees and individual directors”. Principle B.6 under the 2010 code went further than its predecessor (A.6 of the 2008 Code) in recommending that companies carry out annual assessments of their boards and that these assessments are externally facilitated for FTSE 350 listed companies every three years. This is a global standard with almost all international corporate governance codes calling for regular reviews or assessments of boards. Amongst many others, the NYSE and JSE require annual assessments. Not all companies are listed and not all are therefore obliged to assess board effectiveness. This paper looks at why board's should assess their effectiveness - whether listed company or not - and if so, how.



Why assess?

Assessment is one of the most powerful interventions available for raising a board's performance. As one commentator has said “the prime risk that shareholders take is that the board of a company will mismanage it”. The interest of shareholders in an effective board is overwhelming.

Until very recently board meetings were typically formal affairs with little discussion and with activism by board members definitely discouraged. In addition, feedback becomes increasingly rare for senior managers and directors who often receive little or no feedback on their performance. The reality is that groups of senior individuals who are not directly challenged will tend to develop unwritten rules and hidden agendas which detach the equal responsibility each director has in law from the reality of their actual involvement.

Today's definition of an effective board is very different and embraces the active participation of every director. It is also recognised that effective boards are not easy to construct – they must balance individuals with the right mix of skills and experience, endow them with the time needed to make the role work, provide them with operational structures which enable effective working, and finally maintain a positive teamwork dynamic and avoid destructive conflict. With a challenge so complex it is not surprising that assessing board effectiveness has become a valuable tool to refining the way board's work.

As an example of boards improving their performance, a common issue identified in assessments is that of a ‘two tier’ board, with a small group meeting more frequently and generally seen as better informed and at a major advantage to the ‘secondary’ tier who became involved

only late in any process. This can be addressed by tighter discipline in bringing matters to the full board either through meetings or telephone calls, with the insiders meeting only taking place in emergencies.

Boards use feedback to address their weaknesses which ultimately results in better performance of the board. A well run assessment process can foster good team dynamics, highlight and celebrate the positives and bring the board to a shared recognition of the changes they need to make. In extreme cases assessments have prompted resignations. In most cases a noticeable improvement in team working is reported.

How to assess

An effectiveness assessment is one of the best opportunities to genuinely improve the way a board works, both as a team and together with the Chief Executive and senior management. That said, a poorly designed and executed board assessment can destroy trust, erode credibility and shatter working relationships. Equally a board that checks a few boxes and concludes they are 'okay' might meet the requirement of the Code but have little else to show for the effort. The real value of an assessment lies in engaging board members to think about and discuss how the board does its work, and finding ways to make that work more effective.

Extensive research suggests well designed board assessments can uncover three to five major issues, generate good discussion about them and yield useful ideas for improving board performance.

There are five questions to address in designing an assessment:

1. How will you get the board to 'buy in' before the process starts? The board may accept the process but do they genuinely believe the effort is worthwhile? It is essential to involve the directors in designing the process, setting goals and assessment criteria.

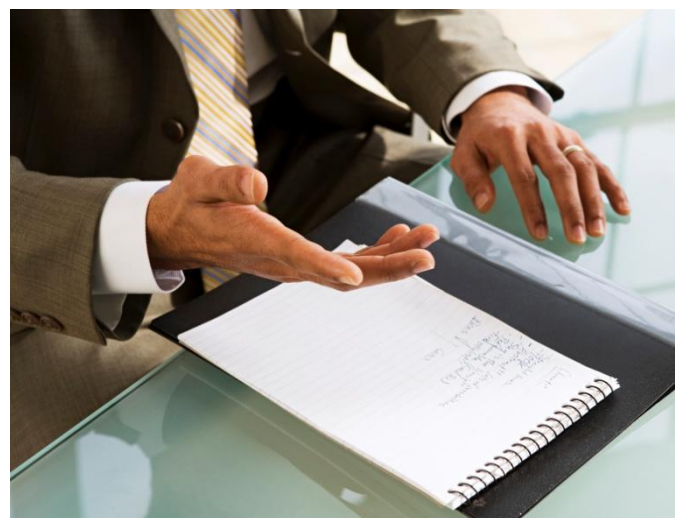
2. What topics should be explored? There are a great many 'template' approaches for assessments, each with different categories and focus areas. Almost all of these approaches has value in the right scenario. Directors should treat these as menu options and make sure the final selection meets their needs.

3. How will data be collected? The mechanics of the assessment. Surveys are useful in measuring perceptions but they have limits. Where there are issues with the structural or operating methods of the board then a survey will generally identify those. Interviews, with an experienced questioner, tend to unearth richer data and underlying concerns which can lead to an excellent board discussion if presented well. Group dynamic assessments can identify teamwork issues

which are not visible through other methods and can double up as a team building experience. Any method beyond surveys takes a larger time commitment and increases the likelihood that the board will be forced to discuss uncomfortable findings.

4. Who should conduct the assessment? Internal resource is inexpensive and familiar to the board, often one of the board members is tasked with leading the exercise. However they may also be more timid in exploring sensitive matters, lack perspective from other organisations that would be useful and research shows directors can be more candid with an outsider they trust. Most assessments engage a third party, at least to design the assessment, although only around 40% of businesses use a third party every year.

5. How will feedback be handled? This is without question the single most important determinant of success for the assessment process. Who will share feedback, in what settings, individually or in groups? And where the results are presented and discussed by the full board, how will that session be constructed and who will run it? It is not enough for the assessment to simply table sensitive issues – to be successful it also has to take a big step towards resolving those issues.



Kingston Smith Consulting's approach

We believe the best approach to assessing board effectiveness combines several different approaches, surveys, one-on-one interviews and a facilitated group discussion. Below we identify the five options available under our approach. Any one option probably meets the narrow requirements of the Combined Code, but combining several produces more powerful results. We typically recommend at least three are utilised, with the Feedback session (option 5) being one of them.

Option 1 – Survey

Board members complete a survey (in writing or on-line) that asks them to rate the board's performance on a variety of dimensions using a numeric scale. There is an opportunity (but not a requirement) for respondents to add specific comments to illustrate their ratings. Survey data is compiled into a report analysing the scores and drawing out major themes. On occasion senior managers outside the board can be asked to complete the survey to provide their feedback on how effectively they feel the board is operating and communicating.

Option 2 – 360 feedback

Board members complete a second survey scoring their fellow board members on a variety of dimensions measuring their contribution and working style. Anonymity of contribution is highly important and the results are summarised into a report for each director which provides key themes in the feedback. These reports are shared with the individual director. We also advocate sharing results with the board as a means of stimulating recognition of the findings and action to resolve issues identified.

Option 3 – Interview

Confidential interviews with each board member to obtain in-depth insights about board performance. A list of questions is provided in advance and these do provide the basic structure for the discussion the format allows directors to raise issues that go beyond those questions. It also allows complex issues to be probed far more effectively than the survey. Interview notes are compiled and key themes included in a report for the board.

Option 4 – Group session

A trained facilitator leads the board in a group discussion of effectiveness. The facilitator raises direct, probing questions which board members respond to and other directors have the chance to hear opinions and question

them. The group session works well where there is a high degree of trust and openness among directors.

Option 5 – Feedback session

The report compiled from the above options is presented to the board and used to initiate a working discussion. Areas for improvement are identified and prioritised, alternatives are debated and the best path for improvement is determined. Board feedback sessions can be intense experiences and, if not managed well, these sessions can retreat into defensiveness and problem denial.

Most board's assessing effectiveness for the first time adopt the survey, 360 feedback and board feedback session. More sophisticated boards, or those looking to move beyond the insights the survey provides, combine additional approaches.

Kingston Smith Consulting LLP, the business protection consultancy, is ideally placed to help board's review their effectiveness with support ranging from advice and process design through to running the entire review process and leading feedback.



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Kingston Smith was originally formed in 1923 and the firm has grown to its current position through organic growth and mergers. Kingston Smith is a member of KS International which is an association of independent accounting firms in over 50 countries around the world.

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