Beyond Governance
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Board Effectiveness Reviews: Weed Out Board Complacency And Gain Fresh Perspective

A Board Effectiveness Review is an assessment process that seeks to evaluate the performance and effectiveness of a company's Board of Directors. The review's ultimate goal is to ensure that the board is functioning optimally and is aligned with the organisation's strategic goals.

Key Components Of A Board Effectiveness Review:

- **Individual director assessments:**
  This involves evaluating each director's contribution to the board. It looks at elements like their knowledge, skills, participation in board meetings, preparedness, etc.

- **Board's performance as a team:**
  This assesses how well the board members work together. It includes factors such as communication, collaboration, respect for diverse opinions, and overall team dynamics.

- **Board structure and composition:**
  This checks if the Board has an appropriate mix of skills, experience, and diversity to govern effectively. It may also look at the size of the board, frequency and structure of meetings, and committee system.

- **Governance practices:**
  This assesses how well the board carries out its responsibilities, including setting strategic direction, risk oversight, CEO performance evaluation, succession planning, etc.

- **Relationship with management:**
  This measures the effectiveness of the Board's relationship with the CEO and senior management, including open communication and balance of power.
- **Stakeholder perception:**
  Sometimes, input from key stakeholders (like shareholders, employees, and customers) can be included to provide an external perspective on the Board's performance.

A Board Effectiveness Review can be conducted internally or independently via an external consultant. The assessment of the effectivenessof the board typically takes the form of a questionnaire particularly if the review is being conducted internally.

An external review will then include additional interviews with Board members and key senior executives, along with a review of governance documentation to assess how well structured governance arrangements are within anorganisation.

The findings are then analysed, and outcomes of the review are discussed with the Chair ahead of being presented to the board, along with a schedule of recommendations or suggested enhancements to support the evolution and development of the governance framework, and governance processes and procedures.

What should a Board Effectiveness Review process look like?

A Board Effectiveness Review process may vary depending on the size, industry, and specific needs of an organisation, but typically, it involves several key steps. Here is a general outline:

1. Setting objectives: Clearly state what you hope to achieve through the review.
Defining the scope: Decide on what areas will be covered in the review. This could include director performance, Board composition, governance practices, the role of Board Committees etc.

2. Determining what approach to take:
Developing evaluation tools: Decide how you are going to conduct the review. This could include questionnaires, interviews, document reviews, and more.

3. Data gathering:
Questionnaire distribution: Distribute questionnaires to Board members and, potentially, other stakeholders to gather initial data.
Conducting interviews: These can provide more in-depth insights. Depending on the scope, interviews can be conducted with Board members, management, and other stakeholders.
Reviewing documents: This can include Board meeting minutes, governance policies, strategic plans, etc.

4. Data analysis:
Analysing responses: This involves aggregating and reviewing the responses from questionnaires, interviews, and document reviews.
Identifying trends and issues: Look for common themes, discrepancies, or areas of concern.

5. Reporting:
Drafting the report: The report should include key findings from the review (and these may not always be positive outcomes) and recommendations for areas for enhancement.

Engagement with the Chair and CEO: take the opportunity to run through the findings with the Chair and possibly the CEO.
Presenting to the Board: The findings should then be discussed with the entire Board. Depending on the organisation, it might also be appropriate to share some findings with other stakeholders.

6. Action Planning:
Developing an action plan: This should include specific steps to address the identified areas of improvement. It should have clear responsibilities, timelines, and measurable outcomes.
Monitoring progress: Regular check-ins can ensure the action plan is being implemented and adjustments can be made as necessary.

7. Follow-up Review:
To ensure the effectiveness of the changes, there should be a follow-up review after a reasonable period to evaluate the progress and make necessary adjustments.
Remember that for the review process to be effective, it must be conducted in an atmosphere of trust and openness. It should be seen as a constructive exercise rather than a fault-finding mission. The ultimate goal is to improve the Board's overall effectiveness and contribution to the organization's success.

Does industry experience matter when conducting a Board review? Does the assessor need to be an external body?

Industry experience can be beneficial when conducting a Board Effectiveness Review. An assessor with knowledge of the industry will be better equipped to understand the unique challenges and opportunities the Board faces and can more effectively assess the Board's performance in that context. They can also benchmark the Board's performance and practices against industry standards and best practices.

However, it's important to note that many apects of good governance are universal across industries, so lack of specific industry experience doesn't necessarily preclude an assessor from conducting an effective review. Assessors should have a deep understanding of governance principles and practices, board dynamics, and the role of the board in strategic oversight.

As for whether the assessor needs to be an external body, it can depend on the specific situation. Internal assessments can be valuable and less costly, but they may also risk bias or lack of objectivity. Internal politics or power dynamics could potentially influence the process and outcomes.

Using an external consultant can provide a fresh perspective and impartiality, which may lead to more accurate and unbiased results. External assessors can also bring experience from other organisations and industries, which can provide valuable insights. They may be better positioned to ask challenging questions and might be seen as more credible by board members and stakeholders.

However, it's essential to ensure that the external assessor understands the organisation, its culture, and its strategic objectives. Whether to go internal or external often depends on the Board's specific needs, the complexity of the organization, and the objectives of the review.

How often does A Board Review need to take place in the UK? How long does the process take on average?

As per the UK Corporate Governance Code (2018), FTSE 350 companies are expected to conduct an external evaluation of their Board every three years. Other companies are encouraged, but not required, to do the same. Beyond the externally facilitated evaluations, Boards are expected to perform an internal evaluation annually.

In terms of how long the process takes, it can vary widely depending on the size and complexity of the organisation, as well as the depth of the review. A typical Board review process might take anywhere from a few weeks to several months.

Here is a rough timeline:

Preparation and planning:
This might take a couple of weeks and involves defining the scope of the review, setting objectives, and preparing the evaluation tools.

Data gathering: Depending on the methods used (e.g., questionnaires, interviews), this could take several weeks to a couple of months, as it depends on the availability of board members.

Data analysis and report preparation:
This could take a few weeks, depending on the volume of data and complexity of the issues.

Presentation and action planning:
After the report is presented to the board, the board might take a few weeks to develop an action plan.

Implementation and follow-up:
The implementation of changes is an ongoing process that continues well beyond the initial review.

These timings are just indicative and can vary. The important thing is not to rush the process – a thorough and thoughtful review is more important than a quick one.

What are the risks of not conducting a Board Effectiveness Review?

Neglecting to conduct regular Board Effectiveness Reviews can have several potential risks:

- Inadequate governance: Regular reviews help ensure that the board is carrying out its fiduciary duties and adhering to best practices in governance. Without these reviews, the board might fall short of these responsibilities.

- Poor decision-making: Reviews help identify any skills gaps or issues with the decision-making processes at the board level. Without them, these problems may persist, leading to suboptimal strategic decisions.

- Board complacency: Regular reviews can prevent complacency by providing a formal process for feedback and improvement. Without this, Boards may become stagnant and less effective over time.

- Misalignment with strategy: Through the review process, the board's work can be aligned with the organization's strategic objectives. Without regular reviews, this alignment may drift, potentially impacting the organization's performance.

- Damage to reputation: Particularly for public companies, not conducting regular Board reviews can raise questions about governance practices and could potentially damage the organization's reputation with shareholders, regulators, and the public.

- Regulatory Issues: In some jurisdictions, regular Board reviews are a regulatory requirement. Not conducting them could lead to non-compliance and potential sanctions.

In essence, neglecting to undertake a regular assessment of the effectiveness of a board can lead to a decline in board performance, impacting the organisation's strategic direction, operational effectiveness, and long-term success. Regular reviews help maintain a high-performing, diverse, and well-functioning board that is aligned with the organisation's mission and strategic objectives.

My Board Are concerned that the review will have negative impacts on some individuals in the organisation, what can I say to address their concerns and reduce anxiety?

It's understandable for board members to have concerns about a Board Effectiveness Review, especially if they're unfamiliar with the process or if it's the first time they're going through it. Here's how you can address their concerns:

- Emphasise the purpose: The primary goal of a Board Effectiveness Review is to improve the performance of the entire board, not to single out individuals for criticism. The focus is on the board's collective effectiveness and ensuring it's equipped to provide strategic leadership to the organization.

- Confidentiality: Assure the board members that the process is confidential. Individual responses to questionnaires and interviews are typically anonymized in the final report, with feedback presented in a collective and aggregated way.

- Constructive feedback: remind the board members that any feedback they receive will be constructive and aimed at personal development and improving board performance. The intent is not to blame, but to identify opportunities for growth.

- Professional facilitation: If the review is being conducted by an external party, emphasize their professionalism and experience in facilitating these types of reviews. They should be skilled in delivering feedback in a sensitive and constructive manner.

- Transparency: Be clear about the review process, its timeline, and what will be expected of each board member. The more information board members have, the less uncertainty and anxiety they're likely to feel.

- Benefits of the review: Highlight the benefits of the review. It's an opportunity for the board to learn, develop, and become more effective, which is in the best interests of the organization as well as the individual board members.

Remember, it's essential to foster a supportive environment where Board members feel comfortable participating openly and honestly. The focus for the board should always be on improving board effectiveness to better fulfil its governance role and guide the organization's strategic direction.

Bringing in a Board Assessor from a corporate background can have both benefits and challenges when applied to the context of a charity or higher education institution.

Benefits:
Best practices from the corporate world: Corporate evaluators can bring best practices and insights from the corporate world that could potentially be adapted to benefit your organization. This could include strategic planning, risk management, financial oversight, and more.

Broad perspective:
They can provide a fresh perspective and might be more likely to question established practices, potentially leading to innovative solutions.

Expertise in certain areas:
If your Board has a specific area they want to focus on where corporates excel (for example, improving financial performance or implementing new technologies), a corporate evaluator might have more expertise in these areas.

Challenges:

Different goals and values: Corporations primarily aim to maximize shareholder value, while charities and higher education institutions typically have more complex, multi-faceted missions. An evaluator from a corporate background might not fully understand these nuances and the implications they have for governance.

Understanding stakeholders: Similarly, charities and higher education institutions often have more complex stakeholder environments. It's important that the evaluator understands this and can navigate it effectively.

Different Regulatory and Funding Environment: The regulatory and funding environments for corporations, charities, and higher education institutions can be quite different. The evaluator needs to understand these differences to provide effective recommendations.

To mitigate these challenges, it's essential to ensure the corporate evaluator takes time to understand your organization, its mission, and its context. Combining their corporate experience with a good understanding of your specific context can lead to a very effective board review. Alternatively, you might consider an evaluator with experience in both corporate and non-profit or higher education sectors, as they could bring the best of both worlds.

Conclusion

Conducting an effectiveness review for your Board is a positive way in which you can see how governance is working to support your organisation. When a review is completed with good engagement it can provide a rich source of data to support the evolution of an organisation's governance framework and effective decision making.