

The Board Effectiveness Guild in conjunction with *Governance* magazine

NED Roundtable: Board Reviews - The Good, The Bad and The Ugly

Thursday 1 April 2021

Discussion Summary

Introduction

Board Reviews - The Good, The Bad and The Ugly was a roundtable discussion facilitated by Ali Gill of *The Board Effectiveness Guild* and hosted online by Lesley Stephenson of *Governance* magazine. The roundtable was attended by ten non-executive directors from a wide range of corporate backgrounds and was conducted under the Chatham House rule. This note summarises the key points arising from the discussion.

What did attendees want out of the session?

Many of the attendees were keen to see how board effectiveness reviews could be improved as a corporate governance mechanism. In particular, attendees came with the following aspirations for the discussion.

- How can boards “up their game” on board effectiveness reviews?
- When is the best time to have a board effectiveness review?
- Understand on a sliding scale what works best for large FTSE350 companies compared to other types of companies e.g. private equity owned and investment trusts.
- To gather more information about what different companies are doing in their board effectiveness reviews.
- Understand how to approach board composition questions arising from a change of ownership event.
- Seeing how board effectiveness reviews could be improved from the point of view of the chair.
- Good ideas on how to make board meetings and evaluations more enjoyable.
- Understanding how reporting on board effectiveness reviews can help investors understand what is happening during such reviews and make the reporting more meaningful.
- To see the connection between board reviews and performance.

Poll 1: Are board effectiveness reviews are a necessary evil?

To set the scene for the discussion, delegates were comment whether they agreed with the view that board effectiveness reviews are a necessary evil. The voting was as follows:

Strongly agree:	0%
Agree:	0%
Neither agree/disagree:	10%
Disagree	80%
Strongly disagree	10%

Breakouts

The delegates split into two breakout rooms to discuss questions about the dynamics of board effectiveness reviews. The key points made and discussed during the break-out sessions were:

1. What is a useful outcome to the board review? What makes it worth the effort?

- One which probes when boards might be too much in its comfort zone, with little challenge and a tendency towards groupthink.
- When mechanical things like length of meetings, minutes, papers are challenged to ensure that the process helps the board to do what it needs to do.
- Taking this point further, should there be a separate evaluation of the Company Secretary?
- For chairs, especially dominant ones, they can be good for enabling the chair to see where they need to improve their approach to chairing meetings.
- There is a huge challenge for companies, especially ones in regulated sectors to spend time on compliance issues which creates limited bandwidth for other matters so how is that bandwidth used effectively?
- It is helpful to have some way of measuring your board against the performance of others in the sector / function – this could be about factual benchmarks e.g. size of board; numbers of meetings; tenure of NEDs – or commentary on common practice in the sector.
- There has to be real honesty – the findings from the process should not be sugar-coated when there are hard messages to deliver.
- It is better to have a short and focussed report with a small number of clear recommendations for how the board can work together more effectively and add more value (keeping any long list of compliance 'hygiene factors' to an appendix)

2. If a board effectiveness review is to be effective, what should it consider?

- Does the whole board understand, agree with and actively support the strategy? Are there any elephants in the room which need to be discussed?
- Should there be more attention given to risk at the board, particularly those linked to strategy?
- What is the motivation for the board review? Is it just tick-box or is there an underlying purpose or intent? (There is a tendency for board reviews in offshore jurisdictions to be a tick-box exercise)
- Does the board work effectively together? What is the dynamic underlying how the board works?
- Do directors enjoy board meetings? If not, why not? (this could be due to the deluge of papers, the style of the meeting, clash of personalities etc – whatever the reasons, they need to be drawn out)
- One of the disadvantages of the questionnaire approach is that they do not draw out the board dynamics and identify what is really important. Similarly, it is a good reason for board observation although sometimes boards can moderate their behaviour!
- What is the desired set of skills and experience for the board? How should this be challenged by someone who is not self-referencing the skills on the board. This sort of discussion cannot be too cosy but should provoke discussion about succession or the prevention of ossification! In this context, the process of producing/using skills matrices can be quite ineffective or self-reinforcing.
- The main thing that the reader of the write-up about board reviews wants is to know that the board is working well together and agreeing its priorities sensibly etc..

- The quality of the one-to-one conversations between individual board members and the reviewer – and the ability to quickly get to high levels of openness and honesty - is absolutely key.
- Get the timing right can be a critical factor – particularly if there is a newly appointed chair.
- There is a need to make sure the process allows time for the chair to read and digest the report before it gets presented to the full board.
- The chair really needs to own the review for it to be truly effective.

Final discussion

Two questions were discussed during the final plenary session:

1. What is the measure of benefits that Board Effectiveness Reviews bring?

- Shareholder return? Avoidance of sanctions!?! Broader debate?

2. What innovations should be introduced into Board Effectiveness Reviews?

- Develop a new vocabulary to get away from the same terminology that keeps coming up (which tends to bring its own baggage). Talking too much about ‘compliance’ leads people down the track of a review being like an ‘audit’ which can constrain the conversation.
- No-one likes to think they are being evaluated and if they do it probably makes people more defensive. Consequently, it seems that *board effectiveness review* is a better title than *board evaluation*.
- Use language to broaden the debate not prescribe it.

Poll 2: I am confident of getting more out of my next board evaluation than my last one?

The discussion concluded with another poll question about future expectations for board effectiveness reviews. The voting was as follows:

Strongly agree:	10%
Agree:	60%
Neither agree/disagree:	30%
Disagree	0%
Strongly disagree	0%

Future events

Three additional roundtable events are planned to consider board effectiveness reviews in the public, charities and sports sectors.

About The Board Effectiveness Guild

The Board Effectiveness Guild is a membership organisation for independent board evaluators. Its central purpose is to share best practices, contribute to thought leadership and promote the value of board effectiveness reviews in board development and practice.

Website: <https://theboardeffectivenessguild.co.uk/>

About Governance magazine

Governance is the leading source of information about corporate governance world-wide. In addition to authoritative and informative articles written especially for us by some of the leading thinkers and practitioners in corporate governance, we have also collected together items of interest from a variety of sources to provide a comprehensive resource of governance related information, all in one place.

Website: <https://governance.co.uk/>