



REPUTATION MATTERS

## How should you do a board evaluation?

**External oversight of your directors can save your business a lot of trouble, but many chairs are reluctant.**

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Given the plethora of board failures in recent years, ranging from Carillion to Volkswagen and Wells Fargo, one cannot help but ask who is monitoring boards, and why does this keep happening? Is nobody watching? Is it a rogue population of boards who resist evaluation that make these mistakes? Or are governance efforts more generally insufficient?

In much of the world, regular, external board performance evaluations are either required, in the case of listed companies, or strongly recommended in the case of charities or not-for-profits. In the UK, external board evaluations have been part of

the governance framework for over 15 years since they were introduced into what was then the UK's Combined Code of Corporate Governance. Under the 'comply or explain' policy, the FRC's UK Corporate Governance Code currently says boards should be evaluated every year and by an external evaluator every three years. It is one of the principle methods for building board effectiveness.



And yet, despite a laudable increase in regular external board evaluation uptake from 45% in 2016 to 54% in 2018, 64% of plc Non-Executive Directors (NEDs) still report that they have not taken part in an external board evaluation within the last three years, and a full 36% that they have never been engaged in an external evaluation (International Board Research, Harvey Nash in partnership with LBS's Leadership Institute).

This suggests too many boards are 'slipping through the net'. It is time for a refresh on how boards are monitored.

## WHY BOARD EVALUATIONS DON'T HAPPEN?

To better understand the problem of board assessment, it is important to understand why some boards don't engage in external review in accordance with good governance guidelines. We can think of at least three reasons. The first and most obvious is that a board has previously experienced a bad evaluation, usually characterised by poor feedback management. We have both heard horror stories about board evaluations gone wrong, including one where two NEDs walked out on the feedback meeting in disgust. Thankfully, these stories are the exception and not the rule – 87% of NEDs report that they do believe board evaluations improve effectiveness.

A second reason is a view of board assessments as remedial, which engenders suspicion, even fear, and reluctance. When reviews are used as a way of identifying underperformance, reluctance is somewhat justified. One chair's response: "my board functions very well, why would I open that can of worms?" That "a can of worms" might exist of course, is precisely the reason a board effectiveness review is important. Can you afford not to know?

The third reason for avoiding board effectiveness reviews might be as simple as not really understanding what a good review should and should not look like. It is a largely unregulated business and there are some providers who are insightful and offer outstanding value, while others do not. Sometimes board reviews are experienced as a tick box exercise and deemed of little or no use. But, an effective board evaluation can be incredible value for money.

## WHAT DOES AN EFFECTIVE BOARD EVALUATION LOOK LIKE?

Broadly speaking, there are two types of board evaluations: procedural and behavioural. Procedural evaluations focus on a specific standard for governance and ask questions about adherence to those standards. Behavioural board evaluations focus on a few psychological principles such as trust and psychological safety, and ask questions about behaviours that reflect those principles – answers to those questions ideally reflect the views of a wide variety of stakeholders including staff and possibly investors, customers and suppliers.

In our view an effective board evaluation should incorporate both procedural and behavioural elements, using both quantitative surveys and qualitative and confidential one-to-one interviewing. The best board assessments will also include one or two observations of the board in action, as well as a firm understanding of the strategic aims and competitive landscape of the organisation. Once the data is analysed and reported, the critical stage is how the feedback is managed and the action plan facilitated and delivered. A case study approach often works well, where one key issue is tracked and discussed from introduction to resolution.

Board evaluations conducted in this way should produce benchmarks that identify areas for improvement and enable an action plan for continuous development. They should also improve board dynamics through facilitative and generative dialogue. Better dialogue and debate, of course, should lead to better decision making and better business outcomes.

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