Evaluating Directors and **Board Effectiveness**

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Boards should carry out formal and rigorous annual evaluations of their own performance and that of their committees and individual members. Such reviews are sometimes quickly undertaken to satisfy a governance requirement. Others boards are more conscientious. They consult more widely and take steps to ensure objectivity and independence.

Diligent boards consciously learn from experiences during and after board meetings. They encourage feedback from stakeholders and welcome opportunities to reflect, review, re-think, re-calibrate and identify areas for improvement. A refresh may be needed. Are directors raising, reducing or managing expectations?

The purpose, vision, goals, objectives, strategies and policies put in place by some boards demotivate, inhibit innovation and deter responsible risk taking. They limit outcomes and restrict individual and organisational potential. With a different framework and strategic direction and a more effective board could more be achieved? How might evaluations enable the latent potential of a company's capabilities and relationships to be realised?

Common Board Failings

Evaluations may reveal failings such as a lack of challenge during board meetings, or a negative and compliance mind-set rather than a more positive and entrepreneurial one. Boards can lack of awareness of issues, options and external developments and/or focus upon internal and corporate requirements at the expense longer-term customer, societal and other interests. Corporate purpose, capabilities, culture and strategy are not always aligned.

Some directors are easily distracted. Many boards miss opportunities or pay insufficient attention to the interests of particular stakeholder groups. Others meddle in operational matters rather than provide a compelling and engaging strategic direction. Proposals with missing elements might be accepted or obstacles and barriers not addressed. Under-achievement and failures may be glossed over or rationalised.

Boards do not always think through the consequences and implications of their actions. The evaluation of compliance and board performance should be alert to possible negative impacts of board decisions. Weak, incompetent or negligent boards can destroy value. Stakeholders should pay particular attention to how board evaluations are undertaken, who is involved and the criteria used to assess conduct and performance.

Evaluations and Evaluators

Boards should consider the scope of evaluations, when they should occur, where and with what frequency, how they should be undertaken and who could add an independent view. Some reviews do not embrace the governance context within which a board operates or the support it receives from executives such as a company secretary or chief financial, risk, legal or compliance officer. Boards should assess and address their deficiencies.

Many boards seek help with evaluations, for example to encourage and assist more critical, selfless and self-aware self-assessment by individual directors and a board collectively. Self-appraisal could be supplemented with peer appraisal and/or 360 degree assessment. Certain investors, key customers, high fliers or first line reports could be invited to comment in confidence to an independent assessor on a board's contribution and how it is perceived.

Self and independent evaluations should be on the look-out for board danger signals such as weak financial management, ritualistic board meetings, 'tick-box governance or people 'going with the flow'. Risks may not be identified, assessed and managed. A risk appetite that is appropriate at one moment might be irresponsible the next.

Governance Arrangements

Corporate governance, structures, strategies, capabilities and processes, strategic direction and support of the executive team should add value and be relevant and appropriate for what a board is setting out to do. Some boards persist with inflexible and annual approaches to corporate planning, rather than intelligently steer an enterprise in real time as conditions, expectations and possibilities change and relationships evolve.

How tailored are governance arrangements, board structures and practices and the contributions of individual directors to a company's culture, situation, circumstances and stage of development? Do they evolve to cope with changing requirements and priorities? Are governance principles observed and laws, regulations and codes complied with?

A board chair should ensure a strategic focus, that sufficient time is allowed for the discussion of important matters and that particular directors or a small clique do not exert undue influence. Some direction setting processes are dominated by certain individuals who are rarely challenged. Others suffer from inadequate and/or out-of-date information or are undermined by an inadequate finance function.

Board Assessment Criteria

Stakeholder expectations, the challenges and opportunities a company faces, and the situation, context and aspirations of a board can influence whether it is regarded as effective, efficient and capable. They might also affect what is considered acceptable in such areas as attitudes, perspective, ambition, agility, diversity, inclusiveness, flexibility, resilience, responsiveness, willingness to act, openness and perceptiveness.

To what extent are a board and its members innovative, proactive, responsible, ethical and transparent? Are they caring, courageous, fair, inclusive, helpful and supportive? Do they attract talented people, focus on what is important and learn from their experience? Are they trusted and is what they are seeking to accomplish sustainable?

To whom do directors and boards consider themselves accountable and for what? Responses to this question can be revealing and helpful in deciding whether or not a particular entity might make a resilient and reliable collaborative partner in a collective effort to address a shared existential challenge.

Assessing Individual Directors

Individual directors can be assessed against a framework of personal experience, competences and qualities. These can include factors such as perspective, independence, objectivity, balance, judgement, awareness, self-awareness, sensitivity, courage, commitment, ethics and integrity. Such frameworks should be used thoughtfully as the contextual relevance of certain factors and their relative importance may change.

It is important that directors understand the distinction between direction and management and the differing duties, responsibilities, accountabilities, perspectives and expectations of directors and managers. Evaluations should separate the differing roles an executive director might have as a director, manager and owner.

In relation to ethical conduct, is a board ensuring that support is provided that makes it easy for people to do the right thing and behave responsibly and difficult for them to do the wrong thing? Should evaluations of executive and independent non-executive directors and subsidiary and main board directors reflect their particular expected contributions?

Areas to Focus Upon

Evaluations should be honest and address reality. Some boards are unbalanced, lack diversity and have too many self-interested mercenaries. Others may be complacent and lackadaisical. How independent are some non-executive directors? Despite laudable qualities, one also encounters boards that lack the individual and collective intelligence and understanding of complex areas needed to discharge their duties and responsibilities.

Particular attention should be given to certain roles such as board chair and CEO, relationships with and between key players and how a board and its members engage with stakeholders. There should be clarity on who is responsible for running the board and who has executive responsibility for running a company's business.

Many boards are largely inward looking and past and present oriented, for example reviewing accounts, monitoring performance and supervising management. They may devote insufficient attention to outward looking and future oriented aspects of their roles such as providing direction and formulating strategy.

Directorial Knowledge and Skills

Directors need knowledge relating to the business environment, the specific company and the particular board and its people, personalities, practices and support. Financial knowledge and an understanding of due diligence and solvency requirements can be especially helpful. Directors also need to know how they can contribute to the work of a board.

Directors should understand the context within which a company operates, have a holistic perspective, the ability to look ahead and analytical and thinking skills, and be capable of taking decisions, As well as communications, relationship building and other interpersonal skills, there are competences related to the work of a board such as delegating and monitoring and the achievement of results through an executive team.

Company specific knowledge could include the requirements of stakeholders, strategic options and risks, strengths and weaknesses, a company's constitution and its purpose, vision, goals, culture and strategy. How do the individual and collective experience, skills and personal qualities of directors relate to the challenges and opportunities facing a board, its aspirations and the context within which it operates?

Conducting Evaluations

Evaluations should consider whether corporate purpose, priorities, vision, objectives, strategy, capabilities, culture, collaborations and other relationships are appropriate, aligned and sustainable. Do they link to priority corporate objectives and address individual and team performance issues. Preparation can include agreeing appraisal criteria and the assembly of supporting evidence, whether of an overall role, particular challenge and/or opportunity or key task. The advisors a board listens to, inputs it receives and its decisions can be telling.

Questions can be direct, such as whether a purpose and vision are distinctive, compelling, engaging, communicated and shared, or indirect such as if the board were an animal which would it be? Open-ended questions such as what board members would like more or less of or a helps and hinders analysis can open-up discussions. Questions about focus and priorities and what would be done differently with hindsight can yield valuable clues.

Evaluations should consider both formal and informal activities. Do independent directors share and discuss any concerns or suggestions for improvement that individuals might wish to raise between board meetings? This might allow root causes of issues to be identified. Some individuals may have multiple roles, for example as an owner, executive and director. Others might be new to a board role and still in need of induction or guidance relating to directorial duties, responsibilities and specific competences.

Evaluating Board Meetings

A room full of good people can sometimes be just that, rather than an effective board. Instead of directors complementing each other, some board memberships are unbalanced. They leave gaps in some areas and providing overkill in others. Evaluating and observing board meetings and practice can expose resulting impacts and risks and suggest remedies.

Areas to consider range from the calendar and cycle of business and meeting frequency, duration and attendance to agenda setting, advice, information, reports and minutes, the structure, location, timing and conduct of meetings, how they are chaired, and the support they receive and provide. Quality of thinking, questioning, discussion and debate needs to be followed by appropriate, justifiable, responsible and timely decisions.

Board papers should be 'fit for purpose' to facilitate effective decision making and their purpose, legal standing and confidentiality understood. Policies and practices relating to meeting conduct, minutes, document distribution and retention and how digital technology is used vary. Reporting should be fair and balanced. Some people have a tendency to exaggerate or downplay or to be an optimist or pessimist.

Ensuring Balanced Assessment

A sense of proportion is required. Board and director self-awareness and the objectivity of self-evaluations can vary. One should not expect too much or too little in respect of a particular board, or be taken in or overly influenced by the qualities of individual board members where divide and rule practices apply or the whole is less than the sum of the parts.

Potential is not always translated into practice. Are board members engaged, participating and positive? Are they questioning and providing challenge, exercising independent thought, making a difference and adding value? Do they understand the sector in which a company operates? Are they displaying personal qualities, integrity and foresight and focused on the company and its stakeholders rather than their own interests, reputations and incomes?

Does the board support the executive team? Do the directors encourage and enable responsible risk taking, innovation and entrepreneurship? Are they open-minded and actively learning and staying current? Are they trusted? Do they practice top-down command and control leadership or a more open form of listening leadership?

Evaluation Challenges

Independence, objectivity, balance and materiality should not be assumed. Capturing stakeholder views and assessing relationships and trust may be problematic. Relating achievement to challenges and opportunities might involve difficult and contested assessments of missed opportunities. Is formulation and alignment of purpose, vision, objectives and strategy followed by effective execution and responsible implementation?

Board dynamics should not cloud assessment of corporate outcomes. Association and cause and effect are sometimes difficult to distinguish. Some boards have favourable winds and their members are fortunate to benefit greatly from the efforts of others. Within a boardroom team there may be passengers as some directors contribute more than others. Care should be taken to distinguish between quantity and quality of participation.

Trends and direction of travel are sometimes not clear. Are directors becoming better informed and more in tune with changing stakeholder aspirations? Is a board perceived as relevant and vital, or as a hinder rather than a help in relation to responsible risk taking and action to address shared existential challenges? Is what it is seeking to achieve affordable, inclusive and sustainable?

Evidence and Measures of Performance

Indicators of external views could range from finance and borrowing cost, corporate reputation and collaborator confidence to stakeholder loyalty, awards and perceived relevance to contemporary issues. Internal evidence could include implemented policies and strategies, mitigated risks, the extent of compliance and the number and consequences of perceived mistakes.

The value of ratio analysis, balanced scorecards, triple bottom line, confidence accounting and ESG investment criteria can vary according to situation, circumstances and context. One should be alert to management accounting tricks, the gaming of targets and negative externalities. Some evaluations rely too heavily upon hard evidence that might not always be available and relevant. The value of insight, intuition and feelings is often overlooked.

Measuring achievement against opportunity can be more demanding than comparing actual with a budget. One may need to probe sustainability, the handling of trade-offs and the implications of performance and environmental indicators that feed into integrated reporting. What is or is not reported can be revealing.

Considering Evaluation Findings

Root causes of observed symptoms should be explored. Some boards exhibit groupthink or an absence of moral compass. A board could be reactive, defensive and rudderless. Its composition might be limited. Its members could lack sector knowledge and a sense of proportion. They may be overcommitted and lack confidence. They might rationalise and conceal and not be open and transparent.

There could be too much information and too little understanding. Directors might focus on short-term and internal issues rather than external challenges and opportunities. While vigorous debate can be healthy, divisions within a board may go beyond differences of opinion and prevent an agreed way forward.

Energy, commitment and drive can be a positive or negative factor depending upon the awareness of a board and the suitability of its strategic direction and strategy in the circumstances. Where they are low a board might be perceived as composed of talkers or irrelevant. Where they are high it could be regarded as worth supporting or a threat according to whether or not it is aware and direction and strategy are appropriate.

Consequences of Evaluations

The consequences of appraisals need to be managed. Courage may be required to suggest an ineffective or inappropriate chairman and/or chief executive. Those appraised and assessors may disagree. There might be sources of bias to discuss and address. Discussion of reviews can inform consideration of whether new appointments and/or development are required.

Processes impacted could include the selection, appraisal, remuneration and development of directors and the monitoring of trends and developments in the business environment. New directors should be selected to complement existing skills, experience and qualities. The resulting mix and balance should cover a board's responsibilities. Individual and collective feedback and next steps could build upon strengths or address deficiencies.

Could a link between evaluation and remuneration sometimes be harmful? Might it distort assessments because of possible implications for remuneration in the light of a financial situation? Should a board take factors other than annual or other periodic evaluations into account when reviewing remuneration policies?

Evaluating the Evaluation Process

A director and board evaluation process should be periodically reviewed to assess its value and contribution. Are evaluations identifying areas for improvement, encouraging suggestions, capturing ideas and opening up new possibilities?

How should a board assure its objectivity and assess the extent of missed opportunities, under-used capabilities and untapped potential and identify missing elements? Is what has been observed cause and effect or an association with achievements claimed by the board that result from activities of other people in and across the organisation?

Some evaluations may be referred to but have limited impact. What should happen to their reports? Are directors learning individually and collectively from failure and disappointment? Are they resilient and persistent? Do they lower aspirations to match achievements or try to reach their goals? Effective evaluations can trigger exploration, renewal and development.

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