

TIME TO THINK:

Key considerations in designing a Board Evaluation exercise

Board effectiveness and the need for a regular evaluation has been a part of UK governance since the early 2000s. Many types of organisation (listed companies, charities, multi-academy trusts) are required or encouraged to perform such evaluations, the details of which are set out in the relevant best practice guidelines that apply to them (e.g. UK Corporate Governance Code, Wates Principles, etc). For FTSE350 companies and large charities, the relevant guidelines require that an external evaluation is performed at least once every three years.

Rather than merely a tick-box governance requirement, a board evaluation review is an opportunity to gather knowledge and insight into the operation of the board that may not be uncovered in the traditional annual cycle of board activities. We set out below key design considerations to optimise the benefits of a review.

What are the objectives of the review?

Be clear about what information you want to collect from the review. You may wish to hone in on a specific concern, perform a hygiene check to confirm existing beliefs, or identify areas where the board may need to adapt as the company evolves. Board evaluation can be used to gather different perspectives on issues such as board composition prior to a planned refresh of the board, or how effective the board processes were when responding to a critical event such as a takeover approach.

Having clarity on the objective is critical. This will inform how time should be allocated to assessing the different elements of the board's performance, who should participate in the review, the methods of gathering information, and the focus and wording of the questions used.

Should the review be internally or externally facilitated?

In addition to whether an external review is required to comply with the relevant guidelines, it is also worth reflecting on whether the information gathered in the review will be

enhanced by the use of either an internal or external facilitator.

An external facilitator is independent and therefore offers a confidential and safe harbour for participants to share unguarded thoughts. This can be valuable in helping to identify underlying motivations and behaviours. While a company representative may seek to achieve a similar outcome, the participant is more likely to be guarded in their responses.

Using an internal facilitator carries a risk of unintended biases influencing the gathering and processing of information. This could arise from reviewing a process they were part of (i.e. their own performance and impact on a board situation) or from pre-existing judgments on a participant influencing how their feedback is interpreted and consolidated with other findings.

For a review which is checking progress against an action plan from a prior, more exhaustive evaluation, an internal review is likely to be sufficient. An external, independent observer is likely to gather a deeper understanding of the effectiveness of the board.

Who should participate?

Participation in the process will be influenced by the depth and focus of the review. In addition to the obvious board roles (chair, senior independent director, board committee chairs, other non-executive directors and executive directors), consideration should be given to including the following:

- *Company secretary*: it can be tempting to have the company secretary facilitate an internal review. However, the company secretary is in a unique position: they are a regular attendee of meetings, have direct and regular contact with the board members, and act as an intermediary between management and the non-executive directors (and so will have their 'finger on the pulse' of the governance of the company). Accordingly, the company secretary can offer different (and possibly multiple) perspectives on observations provided by the board members, a unique input which can be lost if they are responsible for facilitating the review.
- *Representatives of management*: as board directors, the CEO and CFO usually participate in a review. However, broader representation of executive management may be useful in some instances, e.g. where an area of focus may be reviewing the process of setting strategy or seeking feedback on the board's engagement with the wider company.
- *Regulators*: if regulation is a major risk area for the company, or there is (or has been) a significant regulatory event, it may be useful to include the regulator in the process to capture their perspective.
- *External advisors/auditors*: these roles will be regular meeting attendees, work in close contact with management and observe the interactions between management and non-executive directors. Therefore, they provide an alternative, external perspective enhanced by their experiences of working with other companies.

- *Other stakeholders*: in order to gather comprehensive information to meet the objectives of the review, there may be other stakeholders who should be asked to contribute, e.g. employees, customers, etc.

Which research methods should be selected?

There are four types of research method:

1. Questionnaire.
2. One-to-one interviews.
3. Observation of board and committee meetings.
4. Review of board documents.

Methods 1 and 2 involve direct contribution from the participants; methods 3 and 4 require the facilitator to draw inferences from observations. At a minimum, one of method 1 and 2 should be adopted in order for the facilitator to test and re-evaluate the inferences they have drawn.

Questionnaires and interviews are two different research methods. Questionnaires enable the facilitator to ask a standardised set of questions, are easy to administer and allow for quantitative analysis enabling comparison against another data set, e.g. last year's results or to an external benchmark. However, even with the inclusion of free text boxes the data is limited, without the ability to explore and clarify meaning. An approach which uses just a questionnaire may be warranted if the purpose of the review is to assess progress from a prior, more detailed exercise, as a hygiene check or where the objective of the review is to gather views on a specific and clear set of questions.

Interviews are more flexible, enabling the facilitator to tailor the questions and the focus of the interview, to probe areas of particular interest to the participant. However, analysing qualitative data from interviews can be more complex and time intensive, requiring identification of themes, focusing on the language (e.g. the frequency of word usage and commonality across participants) and the meaning behind the use of specific

words; care needs to be taken to mitigate bias in the interpretation of results. Using just an interview is necessary where the areas requiring review are unknown at the outset or where the information that needs to be elicited is more subjective in nature, requiring reflection and challenge.

Using both a questionnaire and interviews can be a powerful way of gaining insight; the questionnaire can refine and focus the lines of inquiry in the interview.

Method 3, observation of meetings, provides a valuable insight into the dynamic of the board, how individuals interact with each other and can enable the facilitator to observe independently actions and behaviours raised in interview. Method 4, reviewing papers, provides a factual reference point for how information is shared across the board.

What to consider in the data?

The research method adopted will impact the ease with which the data can be analysed. There is likely to be a mix of quantitative and qualitative data. When performing the analysis, it is important to be aware of:

- *Maintaining confidentiality:* consider sample sizes, and the risk of whether comments can be attributed to a specific individual.
- *Capturing the data:* given the sensitivity of the discussions, the use of recordings and AI transcription of interviews may be resisted, preventing verbatim recording; consider how to capture the information to enable use of analytical methods such as content and thematic analysis.
- *Mitigate against bias:* be aware that personal views and beliefs can influence how data is interpreted. Strategies that can be adopted include using a core set of standard questions across all participants and verifying interpretations through secondary sources.

Recommendations should be clear, reflecting the findings of the review and refer back to the objectives of the review.

What next?

The final stage is critical; the transfer from recommendations to an action plan and ownership of the review to the board.

Be clear on which recommendations to take forward and set clear, aligned goals. Ensuring that these goals are measurable and time-bound will help to monitor and demonstrate performance and/or improvement in effectiveness.

Most importantly, ensure that there is accountability; assign ownership to each goal and regularly follow up.

Concluding thoughts

A board evaluation offers the opportunity to step outside of regular board activities to observe and reflect on the operation of the board. This is much more powerful than doing so alongside everyday duties, when experiences and details can be missed or misinterpreted.

A well-designed review can deliver insights and impactful actions to enhance board and company performance.

Contact us for more information

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