

# DOES YOUR BOARD HAVE UNTAPPED POTENTIAL?

**A board effectiveness evaluation that gets under the skin of what's working well and what's getting in the way of peak performance is the perfect vehicle to help boards unlock this potential. But what does an effective board evaluation look like?**

In this article I set out why and how to conduct a board evaluation and the conditions for success. In the UK, as with many other countries, it is now mandatory for the board of listed companies to undertake a formal and rigorous annual evaluation of its own performance and that of its committees and directors. For FTSE 350 companies, this evaluation should be facilitated externally through independent evaluation every three years. For unlisted companies, public bodies and charities/ not-for-profits it has become a matter of good practice to evaluate board effectiveness and it is often expected by regulatory bodies.

In the narrow pursuit of fulfilling this legal requirement, or simply complying with good practice, lies the danger of treating a board effectiveness evaluation as just another tick-box exercise. All too often, such a purely compliance-motivated approach jeopardises the great opportunity board effectiveness evaluations present in gaining valuable and insightful feedback.

## Warning: narrow remit of traditional board effectiveness evaluations

The need to avoid a narrow board evaluation remit was highlighted by research into board effectiveness presented in the March

*An effective board is essential to every organisation but, however well yours is doing, every board has untapped potential*

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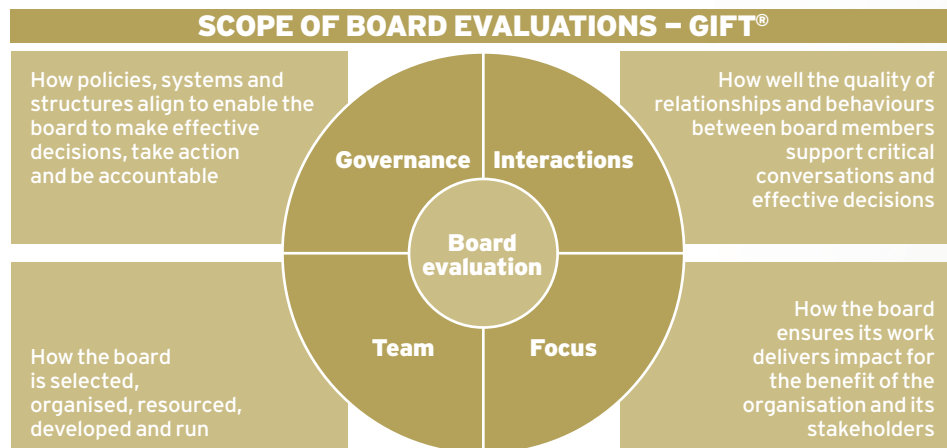
2017 *Harvard Business Review* (and backed up by earlier research published by the search firm Spencer Stuart). This research found inadequacies in many board evaluations that stem from focussing primarily on policies, structure and processes. Such a narrow approach gives an incomplete picture and has limited value. This is also true too of 'quick and dirty' online board self-assessments.

## Winning approach: consider the board's internal context

Value adding board evaluations are broader than this narrow remit and take the board's internal context into account. At their heart, they focus on the human dynamics that support or hinder effective working relationships. They therefore address directly those areas that typically get in the way of board effectiveness: interactions between board members; levels of trust; how the chair, CEO and senior independent directors create the environment for performance; how well the board looks outwards and engages with stakeholders; and, crucially, how differences of opinion and diversity of views are accommodated.

If a board is to perform its three core functions of direction setting, assurance and advising, it is critical that the board is able to have open, uninhibited discussions that enable it to make the best decisions.

An effective board evaluation should enable the board to identify its strengths



as well as uncover shortcomings and identify how best to close these gaps.

### So, what should the scope of a good board effectiveness evaluation be?

Board evaluations should address four areas: governance, interactions, focus and team (GIFT®). After all, a well-run board is a GIFT to the organisation (see graphic opposite)!

Assessment is typically achieved through a combination of:

- Observation of the board at work
- Diagnostic seeking feedback on key areas of board performance
- Interviews with board members and critical stakeholders to get under the skin of the diagnostic
- Review of board processes, papers, self-assessments, etc

### So, what needs to happen to deliver a successful board evaluation?

Boards should not be the passive recipients of a board effectiveness evaluation. A good process combines the following five ingredients:

**1 Board leadership:** When a board commits to an evaluation, the chair must be prepared to lead the exercise as the primary sponsor. The board (and potentially other stakeholders) must be prepared to invest time to ensure that the process is delivered in a way that leads to action. Typically, at least one other senior board member is actively involved in sponsoring and overseeing the evaluation.

**2 Inclusive approach:** The approach must give all board members and key stakeholders a voice. This typically involves gathering both quantitative (formal diagnostic) and qualitative (interviews and desk research) feedback as part of the evaluation. For people to feel their voice is heard, it is also essential that the external facilitator is independent and able to build trust rapidly with board members.

**3 A process fit for purpose:** Boards come in different shapes and sizes and the process must be fit for purpose. A relevant and appropriate process builds trust and enables evaluation to get to the heart of what is working or not. A board effectiveness evaluation should occur within the rhythm of board meetings, ideally allowing for observation of one or more meetings of the board and its committees as part of the evaluation.

Depending on the cycle of board meetings, a board evaluation is usually completed within two to three months.

### 4 Partnering with the right organisation:

Finding the right partner to provide independent evaluation is key. Important criteria are:

- **Genuine independence...** so that existing or future commercial relationships don't get in the way of evaluation and recommendations
- **Listening skills...** so that your partner understands your organisation, leadership and governance needs and is able to shape an approach that will be most relevant to you
- **Holistic approach...** so that board dynamics and the human dimensions of board effectiveness are fully understood, as well as systems, structures and processes
- **Evidence and research-based recommendations...** so that commitment to proposals can be built, ensuring evaluation becomes a springboard for action
- **Continued support to improve performance...** so that you are supported, beyond the evaluation stage, in improvement areas that require skilled facilitation or specific coaching

**5 A commitment to follow up and review:** Board effectiveness evaluation should be run as a cycle to sustain improvements in board effectiveness and not seen as a one-off, tick-box exercise. The actionable outcomes from a board evaluation should be reviewed regularly so that board performance becomes one of the key indicators of organisational health.

Effective boards are essential to all organisations and all boards have untapped potential. As boards come under increasing scrutiny, making time to reflect intentionally and purposefully on board effectiveness is no longer a 'nice to do' exercise, but a must. At the heart of effective board evaluations is a focus on the human dimension, the dynamics between board members that enable difficult decisions concerning strategy, risk, accountability and the like to be worked through in a constructive and generative way.

In this article I have set out the scope of what meaningful board evaluation looks like and the key factors for success. If taken forward, this approach will help boards really get under the skin of what is working well and what needs to happen to improve board performance. 🌟