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FROM BOARD EVALUATION TO BOARD PROGRESSION

The evaluation is not an end in itself. The findings may be interesting, but they are useless if the exercise does not result in board and individual director progression!

Annual board evaluations have now become the norm. Many companies are still trialing their process, having only one or two years of practice, while other have evaluations well engrained into their board and company "culture".

However, if no responsible board tries to defend not doing an annual evaluation any more, many openly worry that their process remains formal and bears little relationship to the actual business challenges their company faces. Even those who believe that their board evaluation process is well managed and provides useful insights often complain that they are not really getting better as a result of having conducted one. This is obviously unfortunate as there is limited point is doing a board evaluation just for the sake of satisfying a regulatory requirement. The purpose of a board evaluation process is improve the quality of the collective decision-making, and actually ensure that better decisions are taken, not to check a governance or regulatory box. A good evaluation process is one that leads the board to contribute better to quality decisions. The underlying assumption is that this is achieved by having better directors, better group behavior and better decision-making processes.

The evaluation is not an end in itself. The findings may be interesting, but they are useless if the exercise does not result in board and individual director progression – in the board's composition, behavior, effectiveness, and generally its added-value in meeting the company's challenges.

A board evaluation process has a much better chance of leading to useful results if the directors relate the exercise to the challenges of the company, the role of the board in meeting these challenges, and to the reasons why they are themselves on that board. By definition, this is highly company and board-specific.

But as important as what is identified during the questionnaire and interview stages are the discussions that takes place and the action plans that are developed as a result. This is often where the process fails, either because the results are never properly discussed, or because there is no effort to develop an "improvement" or a "progression" plan. The debate about board evaluation has moved from whether there should be one, to what to do about the evaluation one it is finalized.

In our experience, the weakness lies in the fact that boards, once they have assessed themselves with objectivity and candor, do not know what to aspire to, and what objectives to set for themselves – other than the desire to do better. The third-parties that have assisted in the evaluation generally provide some input and benchmarks, but they themselves rarely have actual board experience. In addition, the input they provide is generic rather than deeply tailored to the company and its board. It is therefore often insufficient to give the directors a clear sense of how they should handle certain processes, conduct themselves differently or add to the work of the board.

There is no generic way to design a "progression" plan for a board. But such a plan necessarily revolves around the following:

- "Root causes": Discuss the results of the evaluation, and try to get to the "root causes" of the weaknesses,

- Selection of processes: Select the processes, tasks or behaviors that are the most relevant for the company at the time of decision, considering its current position, challenges, management and board composition,

- Other governance practices: Understand what other governance practices might be for these processes, tasks or behaviors, and assess how the board compares and why,

- What to aim for? Determine the level of progression the board should aim for, and set the target for the elements that have been selected,

- Define the target: Define these targets as a series of practical measures, behaviors - rather than in abstract terms,

- Progression: Measure progression during the year.

There as many as 30 to 35 processes, tasks or behaviors a board can look at and decide to focus on in any one year, from setting the agenda, to supervising risk, conducting a strategy retreat or recruiting additional directors. The same goes for committee work and for individual contributions.

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APPENDIX: EXAMPLES OF BOARD PROCESSES

- Setting the agenda

- What information?

- Drafting and approving board minutes

- Strategy process

- Risk oversight

- Business performance oversight

- Budget process

- Planning process

- Group governances processes

- Defining and monitoring "culture"

- Role of the chair

- Role of the "lead director"

- Regulatory framework oversight

- Relationship with Internal Controls

- Relationship with Internal Audit

- Relationship with External Audit

- Ethics & compliance processes

- Remuneration processes

- Succession planning

- Talent oversight

- Board composition

- Committees – which one?

- Committee work plans

- Evaluation process

- Induction and development

- Investor and stakeholder communication

- Sustainability oversight

- Relationship with share/stakeholders