

with Sharon Constancon

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An outside view



Effective board evaluations produce value.

Why do boards resist external evaluation? It is true that most FTSE boards have an internal self-evaluation process in place, however many industry sectors still fall short of best practice. It would seem that external evaluation is required, therefore, to ensure that standards are maintained.

Consider, for example, the reasons why an annual board evaluation is now required of the largest companies in the UK, with one in three to be externally facilitated. An analysis of costly corporate and banking failures indicates that it was neither the unitary board model nor the principles of the then Combined Code that were at fault; some boards simply did not carry out their duties effectively and did not adopt a culture of good corporate governance.

Why then does hostility and resistance manifest when boards are faced with an external evaluation? In our experience, such evaluations are often perceived as imposed, intrusive and unnecessary. This reaction is human and understandable: few people take kindly to

prescriptive solutions imposed by outsiders.

However, there really is little to worry about. It is well-known that effective board evaluations produce value and improve board performance. Company secretaries are frequently pivotal in educating boards with regard to the true nature and value of sensitive and well-conducted external board evaluation.

So how do boards progress from suspicion to satisfaction? The most important step is to identify for the board why an externally facilitated evaluation is a vital step towards the continuous improvement of the board's effectiveness, enabling an unbiased assessment of the current board's structure and workings.

There are several steps which, if taken, will help to remove the invalid suspicion of evaluations, such as:

- an external review of the scope, content and wording of any internally produced questionnaires or interview guidelines. This ensures that these documents achieve their objectives and are fit for purpose in

terms of Codes and best practice;

- responses to questionnaires or interviews should be totally unattributed and not visible to internal colleagues;
- the feedback process should be handled externally and confidentially, ensuring more open input.

In addition, there should be a clear separation between:

- an evaluation of the board's effectiveness;
- the appraisal of each individual director's competence; and
- the individual director's contribution to the team.

The confusion of these distinct elements often leads to frustrated participants and poor insights.

In order for an evaluation to be successful, interaction and interviews should be tailored and focused on the relevant issues, at the same time as exploring new territory. This requires the right person-to-person match in character, knowledge, respect and trust. External evaluation is independent from the company, therefore it ensures that the difficult questions are asked and valuable feedback received, without risking any existing business relationships.

The final collation process is critical and the level of detail disclosed must be appropriate for different groups of internal and external stakeholders. All information must be of value and definitive, with no 'boilerplate' output. It is vital that: responses are unattributed; there is an understanding that not all the findings of an evaluation need be in the public domain and that evaluation outcomes belong to each and every board member.

External board evaluation brings invaluable insight into the workings of the board from the perspective of an outsider. It is designed to facilitate open and honest review of the board's workings, rather than to point the finger of blame. As such it is a process to be embraced rather than feared as part of a wider drive to improve board effectiveness.

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