

To evaluate, or not to evaluate

By [Louis Fulford](#) & [Paul Johnston](#)

Several high-profile corporate failures over the last decade, and the challenging operating environment in which companies are likely to be operating over the short- to medium-term, have placed board performance under renewed scrutiny. Shareholders and stakeholders have much to lose from lacklustre or failing boards.

Why evaluate the Board?

Many of the boards that we work with find periodic evaluations to be a valuable exercise, both from the point of view of reflecting on the board's current performance, processes and priorities but also in looking forward to future challenges and how the board can most effectively address those challenges. Evaluations can provide an opportunity for feedback and starting conversations which are valuable but don't have another natural home in the cycle or are perceived as awkward. They can indicate potential problems or differences of opinion, as well as issues around the quality of relationships and the quality of information, that can be addressed before they become a source of conflict. It can also serve to identify areas of strength which can then be reinforced and replicated or embedded where appropriate.

Carrying out a board evaluation is not a statutory requirement but generally accepted good practice and is necessary if the board wishes to comply with the QCA or UK Corporate Governance codes. The QCA Code, which is the code that the majority of AIM companies adopt, requires (on a comply or explain basis) disclosure, not simply that an evaluation was conducted, but an overview of the topics discussed through the evaluation, how it was conducted and the results and recommendations. An overview of the progress made against the prior year's recommendations is also recommended under the QCA Code.

Certain institutional investors may take a dim view if Boards are not periodically evaluating their performance; similarly, proxy voting agencies, including Institutional Shareholder Services (ISS), have been known to recommend that shareholders vote against resolutions such as the re-election of the chair or other directors at the company's AGM if they see a lack of commitment to periodic review of performance.

We at ONE Advisory strongly advocate for regular board evaluations and have been pleased to work with boards in identifying areas for continued improvement and helping to implement recommendations. For example, we have seen concerns noted around succession planning where we were able to work with the company to incorporate a more detailed and rigorous succession planning process, both through the board and the nominations committee. We have also seen board evaluations identify the need for improvements in the quality and timeliness of board papers. We were able to work with the executive team to improve this aspect of board preparation, which helped to improve the quality of discussions at board meetings generally.

How to evaluate the Board

A successful evaluation will evaluate at least one of the three major functions of a board, which are:

1. Providing direction by helping to direct company strategy.
2. Providing control through monitoring management.
3. Providing support and advice to the executive and wider company.

A thorough and successful evaluation of the performance of the board is essentially an assessment of how the board has performed against all of these parameters. The evaluation can also cover the performance of individual directors, which can help improve their performance by providing specific and tailored feedback. Evaluations can also be used to identify wider development requirements on the Board – whether that be on further understanding company-specific issues, or wider new or emerging legal or regulatory requirements.

There is no universally accepted format for how evaluations should be conducted; the methodology and the process have flexibility. However, generally, the basic evaluation process involves:

1. Identification of areas for evaluation.
2. Formulating a questionnaire on the areas for evaluation, focussing on either quantitative or qualitative data.
3. Obtaining responses of individual directors to the questionnaire.
4. Analysing the responses to the questionnaire.
5. Presenting the results to the Board.
6. Formulating an action plan for continuous improvement.

To be a meaningful exercise, evaluation outcomes must result in an actionable plan. The process of implementing the outcomes will then naturally become a crucial step in the entire evaluation process and should deserve the full attention of the board. This will often naturally lead into a regular cycle of evaluations, constantly building on the recommendations and actions from previous evaluations. The evaluation cycle will then ideally become embedded in the board's own processes and annual cycle of events, serving to build a board culture of continuous improvement.

Boards who commit to a regular evaluation find benefits across these levels in terms of improved leadership, greater clarity of roles and responsibilities, improved teamwork, greater accountability, better decision-making, improved communication and more efficient board operations. An impactful and viable board evaluation leaves board directors asking themselves how they can improve and what more they could be doing. This is the outcome that boards should be striving to achieve.

Committees

While the QCA code does not require Board committees to be evaluated, it is nevertheless good practice to ensure that they are carrying out their critical functions in an effective manner. The process will be broadly similar, but with questions focusing more on the specific function of the committees.

How ONE Advisory can help

Our Governance, Compliance and Company Secretarial team has a wealth of experience in project managing the end-to-end evaluation process, from quantitative numerical-based evaluation methodology to a more detailed qualitative narrative-based method.

We are able to manage the process from its inception. The first step will be discussions with the Chair to determine the substantive and specific goals and objectives they want to achieve through evaluation. We will then decide the form the data collection will take, whether narrative-based or data-driven. A bespoke questionnaire will subsequently be developed in collaboration with the Chair which will aim to target the areas which are being evaluated. Once the data is gathered, we will analyse it, drawing out the key themes, and will then work with the Chair to present it to the board at the next opportunity. We can then assist with drawing up an action plan to ensure that the lessons of the evaluation are worked on and integrate this into the annual agenda cycle to ensure that the evaluation cycle is fully embedded into the board's processes.

If you wish ONE Advisory to assist you in your board evaluation, please email us at co-sec@oneadvisory.london.

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