



# Board Evaluation

Ian Muir  
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Sponsored by Ashridge Business School

Research into the effectiveness of UK board evaluations.

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## **Contents**

<b>Introduction</b>	<b>4</b>
<b>The participants</b>	<b>5</b>
<b>Executive summary</b>	<b>6</b>
<b>Key messages for each stakeholder group</b>	<b>8</b>
<b>Detailed findings – the research methodology</b>	<b>10</b>
<b>The responses and findings</b>	
1) Which external evaluators spring to mind?	10
2) What should be evaluated?	12
3) Feedback to directors on behaviour	13
4) What works well and less well?	13
5) Satisfaction with the process; time spent and fees	14
6) Disclosure in annual reports and comment from shareholders	15
7) Action following board evaluations	15
8) Specific improvements	16
9) Overall improvement to board performance	17
10) Advice from the participants	18
<b>Conclusions and recommendations</b>	<b>19</b>
<b>Appendix</b>	<b>20</b>

## Introduction

Board evaluation for UK listed companies has been developing for more than a decade. The UK Corporate Governance Code requires FTSE 350 companies to undertake an external evaluation of their board's effectiveness every three years. Research on company chairmen's views has to date focused on larger companies, typically in the FTSE 100. Such studies over the past three years broadly concluded that board evaluation was still in its formative stages.

This research and report, was undertaken by Ian Muir, Director at Keeldeep Associates Limited and sponsored by Ashridge Business School. It seeks to understand the views of the chairmen of smaller companies – typically within the FTSE 300, whose turnover ranges from £400m to over £1bn.

There is a growing emphasis on governance as a response to perceived shortcomings in self-regulation. Clearly a fully functioning, effective board is a prerequisite for any successful enterprise. How boards are evaluated and by whom, remains very topical. The subject evoked strong opinions and included comments on recent board room issues such as in financial services.

This study set out to understand how board evaluations are being done in companies below the FTSE 100, by whom and using what kinds of processes. More importantly, it set out to understand chairmen's views on the value of the process and how to get the best out of an evaluation. This study didn't just focus on the process of evaluation, it also studied behavioural issues and how they are reflected in board evaluations. Questions were asked on feedback to individuals on their behaviour, follow up and action plans to determine how board evaluations are driving real change. While aimed at companies below the FTSE 100, it should be noted that some individuals chair more than one company. This broadened the group to include some larger organisations. I am grateful to all the contributors for their candid views and advice, based on their experience and learning.

There are limitations to the research. Respondents were a self-selecting group. Further, some participants have not yet run external board evaluations. This influences their perceptions of what they are embarking on. Also, views of board evaluations differ according to the size of boards and the complexity of their company business model.

Ian Muir October 2012

## The participants

The chairmen of the following public limited companies are thanked for their participation in this research. In the case of other organisations, the most senior representative is also thanked for their participation. All were generous with their time and gave many helpful insights. The data in this report relates only to the chairmen's responses. Where an individual chairs more than one company, only one response has been used. All companies chaired by those interviewed for this research are however listed. Where there was comment from other organisations, this is mentioned as being from the wider stakeholder group.

List in alphabetical order

BBA Aviation plc  
Berendsen plc  
Bodycote plc  
Capital and Counties Properties plc  
Drax Group plc  
DS Smith plc  
Dunelm Group plc  
Fenner plc  
Galliford Try plc  
Hays plc  
ICAP plc  
Inmarsat plc  
Jardine Lloyd Thompson Group plc  
Laird plc  
Marston's plc  
New World resources plc  
Oxford Instruments plc  
Segro plc  
Spirax-Sarco Engineering plc  
Spirit Pub Company plc  
St James's Place plc  
Stobart Group plc  
WH Smith plc  
William Hill plc  
Wolseley plc

Association of British Insurers  
New Bridge Street Consultants  
Trades Union Congress



## Executive summary

**The following themes and key points emerged from the research:**

### **Evaluations are alive and well among medium/small cap companies**

All the companies interviewed do board evaluations. Few see the regulatory requirement for external evaluations as negative. There is a general belief that evaluations add value and there is a genuine desire to improve. This positive result could be due to the sample – those who volunteered to be interviewed. But the overall tone was positive.

Chairmen are more satisfied with internal reviews than with external reviews. More than half felt that subjective information gave greater value and this favoured internal evaluations. External evaluations were useful in giving independence to the process, providing external calibration and challenging any “group think” that might exist. Internal processes were felt to achieve a better understanding of context, greater depth, and better rapport with directors.

Chairmen generally liked their internal processes and felt increasingly well practised in them; but they wanted reassurance that they were doing the right thing. Some had had mixed experiences with external processes, and those approaching their first external evaluation feared their satisfaction would be low. A typical comment was: “We are paying a lot for this; but we are not yet convinced it will be better than our own process.”

Chairmen were concerned about the cost of external evaluations. Fees paid to external evaluators ranged from £20,000 to £75,000, with an average of a little over £42,000. The expected fee range was £50,000 - £100,000.

### **Have evaluations resulted in significant improvements?**

Most chairmen could point to improvements that had resulted from evaluations. These were in the main about board process, such as the organisation of meetings, agendas and time allocations. One in five chairmen had changed individuals on the board at least partly as a result of board evaluations. In many of these cases, the evaluation acted as a catalyst capturing the strength of feeling among board members. It helped bring difficult issues into focus.

There is an increasing focus on follow through after an evaluation. Chairmen and company secretaries are project managing recommendations and actions, checking progress at the next evaluation and measuring the effectiveness of changes.

One area of surprise was the lack of interest shown by external stakeholders. There were few cases where the evaluation process or outcomes had been discussed with shareholders.

### **The next frontier is behaviour**

As most companies have improved their governance, the focus for evaluations appears to be moving towards behavioural issues and how behaviour influences overall performance. While chairmen recognise the importance of behaviour, few have found an easy way of dealing with the issue. Surfacing and debating business decisions where there is conflict was mentioned as one challenge. But chairmen also face behavioural issues with individuals, such as their failure to prepare sufficiently, use of inappropriate language or not resolving conflict collaboratively.

Behavioural issues are harder to expose with internal evaluations. Chairmen are hopeful that external evaluations will help surface behavioural issues and provide suggestions for resolving them. External evaluators may find it easier to “tell it as it is”. However, few external evaluators and even fewer company secretaries are competent to evaluate both board process and board behaviour. This is a challenge for future evaluations, which need to examine the “how” as well as the “what” of board activity.

Few companies have formal, individual feedback between the chairman and each director. Even fewer have objectives for directors and development plans. Few evaluations involve follow up or counselling with individual directors on their personal style or behaviour. There is an opportunity here for boards to give leadership to the rest of the organisation on performance management and personal responsibility. If the top directors are held accountable for their behaviour, it is easier to do the same throughout the company. Similarly, as the behavioural tone is set from the top, it can have a profound influence on the whole organisation. In a new era of risk and reputational management, the right behavioural leadership is a big opportunity.

### **There are no silver bullets that ensure good evaluations**

The quality of the chairman’s engagement and the quality of the evaluator are the keys to success. A good chairman and a good evaluator can identify the areas for improvement, facilitate a high quality discussion, provide individual feedback and ensure that recommendations are implemented.

Evaluations that worked less well suffered from one or more of the following problems. The directors lacked rapport with the evaluator. The evaluator lacked an understanding of the client business or appeared to revert to “box-ticking.” A recent event dominated the feedback and discussion. Non-executive directors were unwilling to have their comments attributed. The chairman signalled a lack of commitment or failed to follow up on recommendations.

A third of chairmen expressed concern over the conflicts of interest facing search firms who do evaluations. It was felt that search firms might be unwilling to criticise directors they had “placed” or might use the evaluation as an opportunity to win extra work.

## Key messages for each stakeholder group

### Chairmen

- Commit to doing this really well or just aim for compliance.
- Demonstrate clear process leadership from start to finish.
- Be careful who you choose - external evaluators need rapport and sensitivity to deliver value across behavioural as well as process issues.
- Ensure the Executive are fully “bought-in.” Recognise that executive directors may be less comfortable with the process than non executive directors.
- Use evaluations to signal the importance of performance throughout your organisation.
- Ensure appropriate follow up actions take place, particularly for sensitive topics.
- Use individual feedback to inform directors’ objectives and development plans.
- Use one-on-one interviews to counsel directors on behaviour but...
- Don’t use the evaluation as a “front” for addressing sensitive issues.

### Senior independent directors

- Help the chairman to engage fully with the process, allocating enough time.
- Provide fair, independent challenge and support.
- Highlight any issues that are being overlooked; refer to previous evaluations.
- Hold chairman to account for follow through on behavioural and process issues.

### Non executive directors

- Provide input to the scoping of the evaluation, based on wider experience.
- Be open to questions from executive directors who may have less experience.
- Recognise that executive directors may be more sceptical or have more concerns.

### Executive directors

- Consult the NEDs who may have useful experience from other companies.
- Extend the evaluation culture and process to other senior teams below the board, integrating it with the succession agenda.

### Company secretaries

- Consider how best to run internal evaluations; if necessary seek training.
- Benchmark your internal evaluation process with other organisations.
- Be aware of the challenges of being part of the team and running an evaluation.

### HR directors

- Link the evaluation process with the wider talent and succession agenda.
- Use the fact of board evaluation to drive performance management from top to bottom of the organisation.
- Agree with company secretary / chairman who should run the evaluation process.
- Advise the chairman on how best to meet identified board development needs.
- Agree follow up items with individuals and provide personal development guidance.



## Evaluators

- Address conflict of interest perceptions, explain separation of duties (search companies).
- One size does not fit all. Tailor solutions to reduce perceptions of standardisation.
- Reflect board size and business complexity.
- Demonstrate board understanding and experience.
- Establish deep rapport with a diverse community; understand the business.
- Ensure questionnaires are not viewed as too long.

## Regulators

- Companies feel that the three year rule is restrictive.
- Some consider the three year rule takes little note of where a board is on its journey to maturity and continuous renewal.
- There is little guidance on the definition and meaning of “board effectiveness”; consider how guidance on interpretation might help boards.

## Investors

- Ask chairmen on how the company is getting value from board evaluations to improve the board and through that, overall company performance.
- Form a view on how behaviour is influencing board and company success.

## Detailed findings: the research methodology

The research examined the following questions:

- a) Are board evaluations improving performance or is it just a “box ticking” exercise?
- b) What methods are being used and is there a trend towards external providers?
- c) How satisfied are business leaders with the evaluations?
- d) What are the benefits and drawbacks; how much value does the process provide?

200 chairmen were invited to participate in the research. The response rate at over 12% was above expectations, being more than double the rate normal for research. From the end of July 2012 to mid September 2012, interviews took place in person at the organisations’ headquarters or by telephone.

The interviews lasted 30 minutes and covered questions on: process, use of internal and external evaluators, the balance of objective and subjective data collection, feedback, action plans, what works well/less well, satisfaction with the process, time spent on the evaluations, costs, value, external feedback, what has changed as a result of board evaluations, belief in the value of evaluations and advice to others.

While some questions were of a purely factual nature, others were more discussion based. Time was allowed for examples and opinions to be voiced, thereby providing context and colour to the more factual answers.

The responses were collated anonymously and analysed to identify patterns and trends.

## The responses and findings

Board evaluation has moved from its “start-up” phase, to a more experienced approach. Early evaluations appeared to focus on governance processes with actions leading to changes in the mechanics of how boards were run. There is now a growing interest in and emphasis on the interpersonal dynamic, how decisions are made and how behaviour contributes to (or detracts from) board effectiveness. However this interest has not yet fully translated into the main focus of action.

There remains a lack of clear agreement on what “Board Effectiveness” means and therefore precisely what is to be evaluated. The Financial Reporting Council (FRC) has given some guidance on what to evaluate: skills, experience, knowledge, diversity; purpose, direction and values; succession; how the board works; key relationships and effectiveness; clarity of roles and quality of processes. While this enables flexibility of interpretation, boards should ensure they evaluate processes, activities, relationships and behaviour that are relevant, meaningful and fit for purpose.

There is a growing professionalisation of board evaluations and a growing understanding of their importance. The chairman’s level of engagement with the process is almost universally believed to be key to the success of any evaluation.

### 1 Which external evaluators spring to mind?

All participants had clear but differing views on what board evaluations are, how they can contribute to effectiveness and that both internal and external evaluations have merit. All were aware of the requirement for an external review every third year. Some had used external evaluators for several years while others were planning their first external review.

The range of providers spontaneously named was quite wide. The 23 named organisations included executive search companies, independent providers (small and large) and professional services companies. The most frequently named individual was named as such – rather than her company. All respondents knew of the requirement for an external evaluation every third year. Already, over 80% had conducted an external review. A third of respondents expressed concern over potential conflicts of interest for search companies undertaking board evaluations. Several respondents had strong views on this, believing that search companies may be unwilling to criticise directors they had placed or might use the evaluation as an opportunity to win additional work.

Chart 1: Frequency of naming search companies

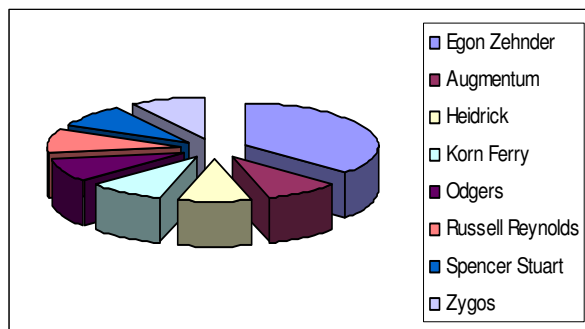


Chart 2: Frequency of naming independents

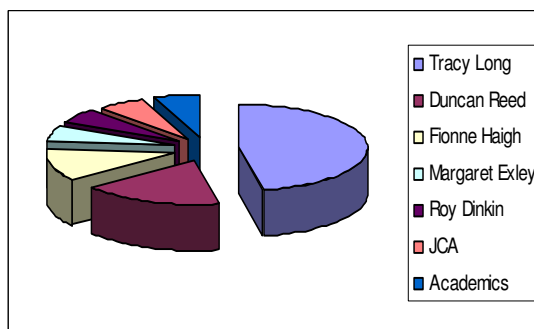


Chart 3: Frequency of naming independent companies

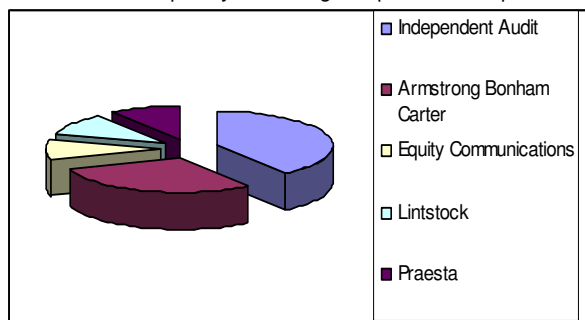
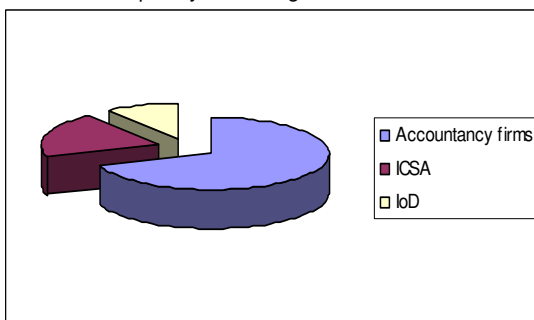


Chart 4: Frequency of naming Prof Services Cos



Half the respondents spontaneously mentioned “search companies” without naming them. Eight search companies were named with Egon Zehnder mentioned most often. Seven independent providers and five independent companies were mentioned. Tracy Long was named the most often. Three professional services companies or categories were named.

A fifth have completed internal evaluations to date and three quarters use both internal and external evaluations. The prime reason for using external evaluators is to comply with regulation. Most chairmen accept that internal evaluations could become self-serving. All were open to the concept of external evaluation but most felt the three year requirement was inflexible. Several added that it depends on where the board is in its maturity as a team, what the issues are, whether there have been changes to membership and when. The widely held view is that external board evaluations will continue to be run every third year in future. While this is mainly for compliance, there is a growing appreciation of the value of using both on a three-year cycle. No one expected fewer external evaluations.

Chart 5: External & Internal evaluations undertaken

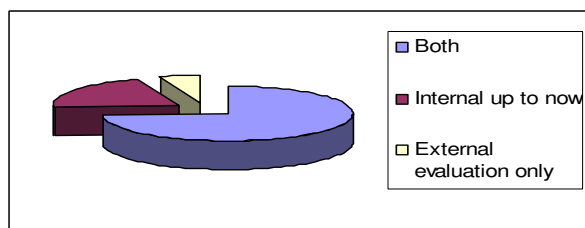
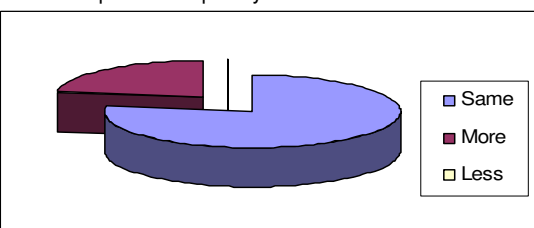


Chart 6: Expected frequency of future external evaluations



## 2 What should be evaluated?

There was no common view on the definition of board effectiveness or what a board evaluation should measure. There was however a strong belief in the value of reviews.

One sixth of respondents described data collection as mostly objective, a quarter as 50/50 objective/subjective and over half as mostly subjective. Half the respondents said that greater value comes from the subjective information. Interestingly, most of the improvements came from objective data and measurable actions rather than more subtle behavioural issues and how they were handled. Chairmen valued the behavioural insight they gained but appeared not to apply the same rigorous follow up on behavioural matters.

Chart 7: Subjective and objective data collection

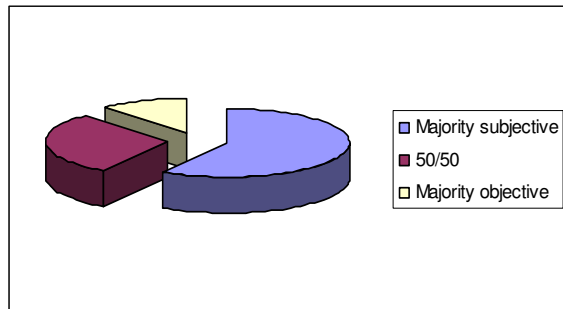
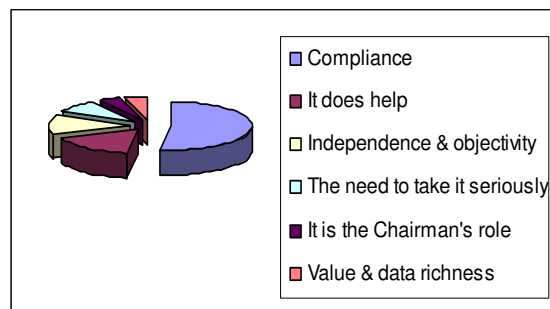


Chart 8: Reasons for evaluating the board



The internal evaluation process typically includes a questionnaire, checklist or agreed agenda. In one company, directors write an essay. There is then a face-to-face interview with the chairman or SID. Key themes are summarised before feedback is provided to the board. In one case, feedback was not provided to the whole board. Individual feedback (ie counselling on behaviour) is typically provided “where necessary.” The chairman’s personal engagement is regarded as critical for successful evaluations and follow up, although the process is usually administered by the company secretary.

The external evaluation process typically includes a questionnaire (either on-line or paper based). Individual interviews follow with the evaluator and key themes are summarised in a draft report to the chairman. The final report is presented to the board and individual feedback is provided where necessary.

Objective questions should cover governance, board remit, objectives, board processes, resources and training, stakeholder engagement, board meetings and visits, evaluation, committees and chairmanship. Behavioural question areas should include enablers and inhibitors to contributing; co-operation, challenge and support; conflict resolution, trust and focus on results. Some examples are listed below:

- a) Is there one thing that would enable you to contribute more effectively?
- b) To what extent do all the team members make a full contribution?
- c) Does anyone under-contribute? Why?
- d) Does anyone over-contribute? Why?
- e) What should change to enable the right level of contribution?
- f) Who is it easiest to work with? Why?
- g) Who is less easy to work with? Why?
- h) What is the balance between challenge and support?
- i) Where areas of difference do arise, how well are they handled?
- j) How effectively is conflict resolved?
- k) To what extent are areas really opened up and explored rather than suppressed?
- l) What should the team: Stop, Start and Continue?

The reasons for evaluating the board were given as: compliance, recognition that evaluations do help, the need for independence and objectivity, the need to take it

seriously, the view that it is part of the chairman's role and finally the value and richness of the data provided. Several chairmen said the report acted as a catalyst for raising specific issues or for taking action.



"The Chairman needs to decide what he wants out of the evaluation. The evaluator wanted to attend one board meeting - I've never seen the board behave so differently!"

### 3 Feedback to directors about behaviour

Few organisations appear to have a formal process that translates outputs from board evaluations into formal board objectives, board committee objectives or individual objectives and development plans. A process for giving focused, individual feedback on behaviour was rare.

Reporting should include comment to the chairman and SID giving evidence based observations on individual behaviour and effectiveness. Individual feedback, including comments and guidance on directors' behaviour and style of contribution should be given privately. The whole board should discuss overall results and trends. Following on, boards should actively consider director development plans.

There is an increasing trend of tracking actions over longer periods of time. As the frequency of evaluations increases, more chairmen said they would refer to trends.



"For both the board and individuals. It works well. Very effective. We have confronted performance issues and had frank discussions."  
"Feedback has been to the whole board. While the 1:1s are interactive there is no individual feedback."

### 4 What works well and less well?

There was a wide range of responses. Interestingly, three quarters of respondents started their answers by describing what works less well. Examples included: absence of rapport with the evaluator; a lack of understanding of the client business; danger of "box-ticking"; "ticking the middle box," external evaluators using a "one-size-fits-all" approach; directors feeling obliged to make a point on every question; NEDs not wanting to be attributed, leaving the chairman or CEO to make difficult points and also the cost of the process. Most of the adverse comments referred to external evaluations.

Comments on what worked well included: The directness of the evaluator; the avoidance of self-congratulation; commitment to evolution and development; high quality discussion and feedback; using the evaluation to focus attention; a safety valve; a direct and informal approach; drawing attention to board members whose contribution had changed over the previous 12 months; openness and rapport.

Chairmen were asked what was the most significant thing about the evaluation process that could be better. They wanted external evaluation processes that mirrored internal processes and a greater emphasis on evidence-based insight rather than opinion. One respondent said it was important to measure whether the NEDs were being told what they needed to know at the board.



"It is very important the Executive buys into the process. The quality of evaluator is very important. They must be willing to engage with the people."  
"What works less well is where directors are less inclined to share concerns generally with the board than with the chairman. Encouragement of frankness is a theme."  
"Evaluations work well when they get 'the elephant' onto the table."

## 5 Satisfaction with the process; time spent and fees

Overall, respondents were satisfied with the process. This was skewed by the number of internal-only evaluations. Only a quarter were very satisfied. There was clear concern among those approaching their first external evaluation who wanted very high satisfaction but feared it may be low. A typical comment was that chairmen felt increasingly competent using their internal process and were not yet convinced an external process would add significant value. Some external evaluation processes were believed to be inappropriate, being aimed at much larger, more complex organisations.

Chart 9: Satisfaction with board evaluations

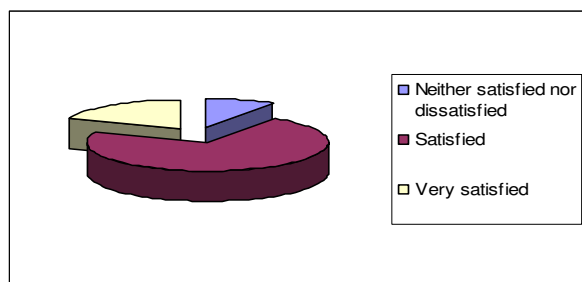
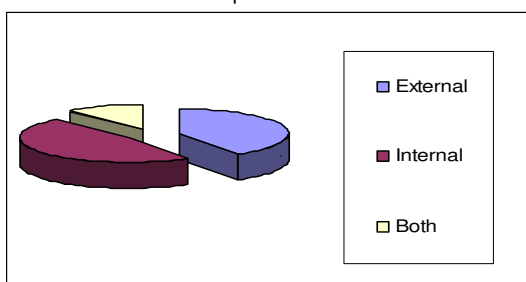


Chart 10: Chairmen's preference for evaluations



"I'm very satisfied. I've always been a fan of 360 degree feedback and appraisals generally."

"I'm satisfied with internal evaluations. I expect to be very satisfied with external but fear low satisfaction."

"It's one of the few pieces of development and training the board has done."

The majority of directors spent 4-5 hours on their board evaluation process. This included preparation, questionnaire, interview and feedback. Chairmen and senior independent directors spent more time on the process, usually at least 3 hours more and in some cases very considerably more.

Chart 11: Time spent on evaluations (directors)

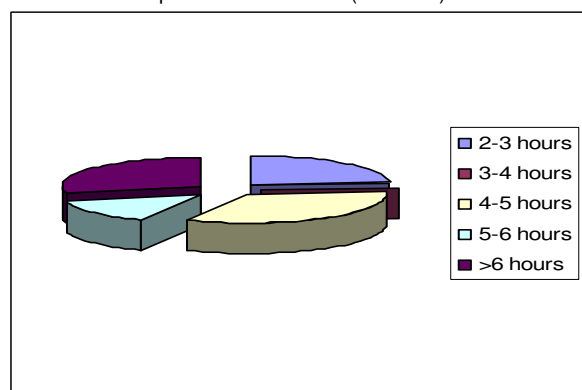
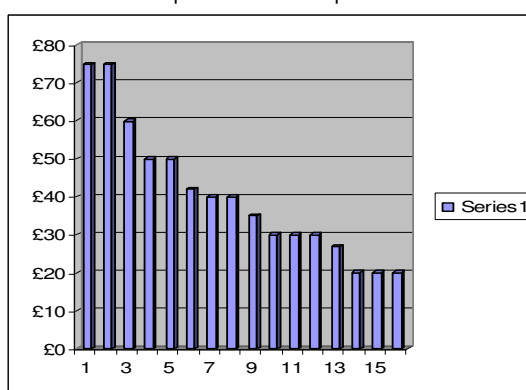


Chart 12: Examples of external spend



Costs varied significantly. Clearly internal reviews cost much less than external reviews. Fees paid to external evaluators ranged from £20,000 to £75,000. The average was a little over £42,000. The accepted range was £50k-£100k. Perceptions of value for money were higher for internal reviews than external ones. At least one chairman felt external reviews provided very poor value and that regulation was forcing the process onto companies. Many chairmen felt that the costs for external evaluations were already high and there was an upward trend. Perceptions of value were low wherever it was felt that an external process was being "force-fitted" to the organisation. Comments such as "cookie-cutter approach" were made several times. One said he did not need a FTSE30 approach for the FTSE300.



## 6 Disclosure in annual reports and comment from shareholders

The level of disclosure in company annual reports is limited. Chairmen do not want to disclose potentially sensitive information to competitors. As a result, few companies go beyond saying that an evaluation took place and that broad conclusions have been reached. Few disclose any actions planned or taken. When asked whether shareholders had provided feedback on either the fact or content of board evaluations, over 90% of respondents said “none.” This question evoked the fastest responses. On further discussion, the corporate governance specialists appeared to take some interest in companies’ evaluations but usually when prompted by the chairman. Respondents said the interest appeared to be more from a “box-ticking” perspective rather than from a genuine interest in leadership behaviour and board effectiveness. The primary interest from investors appears to be in remuneration. Given the importance of board effectiveness, it is perhaps surprising that shareholders are not asking chairmen detailed questions about how evaluation is used to make specific improvements. Most chairmen were surprised at the absence of interest from shareholders.

Comments from the wider stakeholder group to this research were that investors observe management teams at investor meetings, presentations and AGMs. They use these observations to form their own conclusions on board coherence. Another was that giving an employee voice on senior leadership may in future be seen to be valuable. Given the wealth of objective and subjective data now coming from evaluations there may be an opportunity for deeper more meaningful dialogue with external stakeholders.



“Shareholders should be interested. Investment analysts are interested in remuneration as it’s a hot topic but there should be broader interest in boards.”

“Governance specialists are somewhat more interested but their focus is more on Remuneration. It’s not prominent.”

## 7 Action following board evaluations

It is not surprising that chairmen felt their boards were effective in following up after board evaluations.

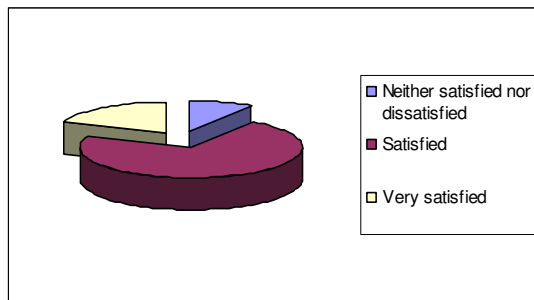
The most common approach was a project management one: define the issue, note it, allocate responsibility for resolution, track it, monitor it, review every 6 months and close the action. This is an effective way of resolving overt, objective issues such as dates for the submission of board papers or the frequency of meeting management below the board. Far less was spoken about resolving behavioural issues, the timescales for intervention, how and by whom.

Several chairmen said that where behavioural issues existed, the board review provided the mandate to deal with them. It provided an agenda to raise issues on the basis that several members of the board had raised a topic relating to a specific individual. Behaviour is a sensitive subject. However it raises questions if any such issue has to wait until a board evaluation report. While the majority said greater value comes from the subjective insight, the majority of actions and follow up were from the objective, factual items identified. Chairmen should hold individual performance review meetings with each director every six months however only a tiny minority do so.

When asked what has got in the way of implementing actions arising from board evaluations, the following were listed: insufficient time during the board meeting itself, logistics of getting round global operations, executive directors being less comfortable with external evaluations (and less experienced than NEDs), the size of challenge in embedding comprehensive risk management, and the chairman’s level of motivation.

The level of satisfaction with progress following outcomes was as follows:

Chart 13: Satisfaction with progress against actions



The overwhelming comment was that boards are now taking evaluation more seriously than before. A quarter of respondents said their level of satisfaction with progress is higher than it would have been a few years ago. When asked “overall, how has your board changed as a result of the evaluations done?” One in five chairmen said there had been changes to board composition as a result of evaluations. Evaluations had acted as catalysts to confirm what was suspected or known. This shows that in some cases profound change has resulted from evaluations.



“As Chairman, it is up to me to make sure we do make progress.”  
 “We’re better than going backwards but we are not as far forwards as we need to be.”  
 “We used an external evaluator this year. The next evaluation will measure the success of the modified behaviours.”

## 8 Specific improvements

Referring to a list of eight topics, chairmen were asked to choose three that had improved the most following board evaluations and one they would like still to improve. The most frequently listed improvements were: board agendas and time spent on each item; visibility of management below the board and how the board functioned overall. Three of the top four areas of improvement had been made on board processes. Areas for further attention were largely behavioural, including: (after more visibility of management below the board) improving individual behaviour of board members; and improving the team dynamic of how the board functions as a team.

Chart 14: Most improved

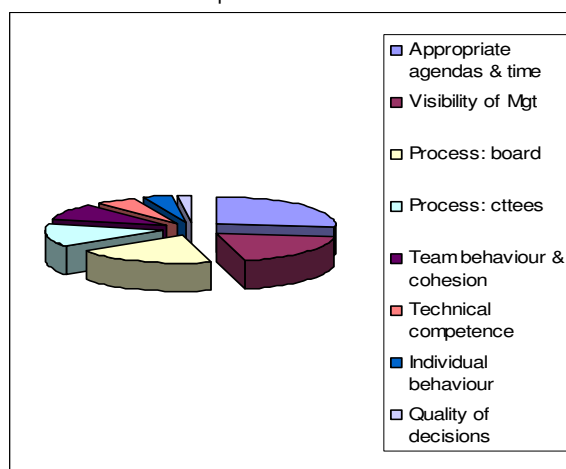
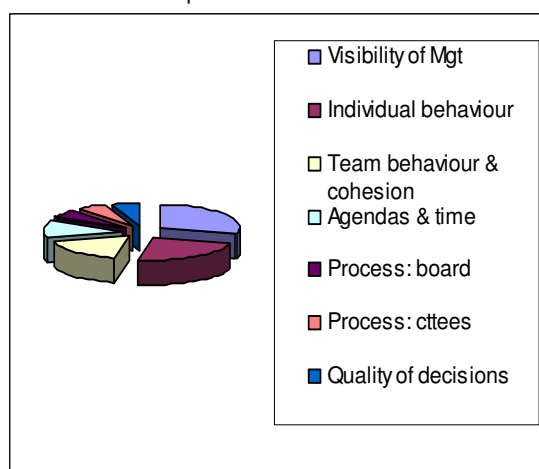


Chart 15: To improve further



This seems to suggest chairmen think more progress is being made in process areas than on behaviour. A quarter of chairmen said they were grappling with the issue of encouraging the Executive to see the NED view and vice-versa.

Five behavioural topics were listed and chairmen were asked to rank them in order of improvement. Using a 1-5 point scale, 1 meaning improved the least and 5 the most. Several respondents had difficulty with the question and it provoked by far the longest thinking time throughout the interviews. My interpretation is that the subjective elements of evaluations are not surfacing team effectiveness behaviours or helping chairmen identify behavioural action points as clearly as more objective data. The five behavioural topics are dysfunctions of senior teams. They refer to insufficient or inadequate: trust, conflict resolution, commitment, clarity of accountabilities and focus on results. Commitment had improved the most and Effective Conflict Resolution had improved the least.

When the five topics are not present, they are key indicators of dysfunctional teams:

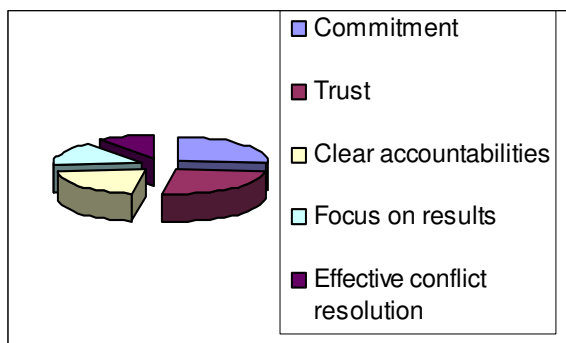
- Focus on results
- Clarity of accountabilities
- Level of commitment
- Effective conflict resolution
- Trust



“It takes time to get into this – there are barriers to break down.”

“We need to find a way of engaging the whole board to discuss difficult issues.”

Chart 16: Ranking of 5 behavioural improvements

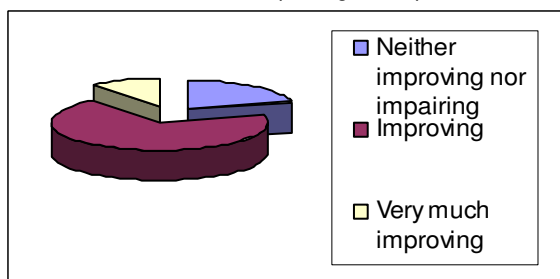


“We now have a performance review process.” “Effective conflict resolution and trust are harder to investigate, analyse and resolve.” “It’s very hard to do this but evaluation has contributed to overall cohesion.” “Evaluation outcomes are very helpful for new NEDs and bringing them on board.”

## 9 Overall improvement to board performance

Overall, chairmen felt board evaluations are improving performance. However only two felt this is true to a great extent. About 60% felt it was true to some extent.

Chart 17: Evaluations improving board performance



“It forces a process of evaluation and confrontation. People have to face up to things.”

“It makes a strong contribution to improving, renewing and refreshing the board. It is a tool that helps the board to evolve.”

“The process forces people to think about what we should be talking about. It helps us compare & contrast the Exec view v the NED view.”

“Evaluations are improving performance to a small degree.” “I’m not sure they reduce Risk.”

## 10 Advice from the participants

The most frequent advice to other boards was that the role of the chairman is crucial to the overall success of the evaluation. Given that evaluations are now mandatory, chairmen advised that all should get the most out of the process and do the very best job they can. Some chairmen had learned from bad experience in other companies where they were board members. Weak ownership by chairmen in other organisations had caused respondents to pay greater attention and be more engaged with owning and driving the process where they were chairmen.



“Be very clear on what you plan to achieve from your board evaluations. The Chairman must be committed to things he may not want to hear.”

“Treat it like any other part of corporate governance. Do it well. Culture is more important than process. Regard it as something contributing to good company performance. Get the most out of it.”

“There is value in doing both internal and external reviews on a 3 year cycle. You get a better internal discussion once you have done an external evaluation.”

## Conclusions and recommendations

Board evaluation has emerged from its infancy to a mainstream activity. The focus is shifting from process improvement to wider behavioural considerations. This is welcome as behavioural factors can have far greater impact on company performance than pure governance. Chairmen acknowledged that addressing behavioural issues was more challenging.

The chairman's level of engagement with the process and high integrity follow up probably have the greatest influence on the success of the evaluation. The chairman must also use emotional intelligence to ensure the executive and non-executive directors are fully engaged with the process. Ensuring commitment from the Executive may be the bigger challenge. Clarity on what is to be evaluated and why are also essential. Boards need to be managed and developed as high performing teams characterised by high challenge and high mutual support. Working in a balanced way, boards should use the evaluation as a tool for development – especially to promote effective team working.

Living the environment of evaluation sets a tone for the whole organisation. The opportunity is to have an integrated performance management system that includes clear objectives and personal development from the top to the bottom of the organisation. Wide appreciation that the top team evaluates its performance sends a clear signal to the entire enterprise about what is expected at work.

It is important to choose experienced external evaluators who understand the client's business and develop real rapport with the top team. Most sources of dissatisfaction related to external evaluations. There is clear unease regarding potential conflicts of interest for search companies undertaking board evaluations. However, that risk can be mitigated and explained with suitable separation of duties.

Disclosure appears to be driven by compliance. There is a clear opportunity to use board evaluations as wider evidence of a clear performance culture and source of competitive advantage. Some organisations are using evaluations to confront issues that otherwise would have remained dormant. This underlines the importance of a continual focus on individual and team effectiveness. The evaluation should then be used as a development tool and the start of more meaningful and continuous discussions on effectiveness. If there are behavioural issues, they should not await a board evaluation to act as catalyst for intervention.

There is a growing recognition that external, independent evaluations can bring additional insight. However providers need to convince chairmen there is no "one-size-fits-all" approach. The needs of the FTSE 300 were felt to be different to those of the FTSE top 30. The opportunity is to continue the evolution beyond the requirements of corporate governance and use the evaluations as development tools. The concept of director development programmes is still in its infancy but board evaluation can enable developmental follow up. If there are behavioural problems in a board, external evaluations are more likely to surface them.

Changes implemented as a result of board evaluations initially focused on improving process. They now appear to be moving into longer term behavioural, individual and team effectiveness improvements. Chairmen are satisfied with evolutionary progress as a result of their evaluations. No one expected sudden change.

There are many stakeholders involved in board evaluations. Specific recommendations are listed for different groups following the executive summary of this report.

## Appendix: The Questionnaire

Introduction – purpose of research is to answer the questions:

- a) Is board effectiveness evaluation improving performance and mitigating risk or is it just a “box ticking” exercise?
- b) What methods are being used and is there a trend towards external providers?
- c) How satisfied are business leaders with the evaluations?
- d) What are the benefits and drawbacks and how much value does the process provide?

Confidentiality – all responses are confidential. No individual responses will be attributed although the participating organisations will be listed and thanked for their support of the research. A copy of the report will be sent to contributors.

### 1) Personal details of respondent (from company web sites)

Name	
Job title	
Organisation	
Type of organisation	
Turnover	
Size of board	
Number of executives	
Number of non-executives	

- 2) When you think about providers of board evaluation services, which names spring to mind?
- 3) Do you use internal or external providers or both to evaluate board performance?
- 4) In future, do you envisage using external evaluations: less often, the same or more often?
- 5) How do you evaluate board effectiveness in your organisation?
- 6) Why do you do what you do?
- 7) What is the balance between objective and subjective data collection?
- 8) Please briefly explain your process and how you undertake it.
- 9) How have outcomes been fed back – both to individuals and the whole board?
- 10) Have you tracked trends over three or more years?
- 11) If so, how?
- 12) What works well / less well in your evaluation process?
- 13) What is the most significant thing about the process that could be better?
- 14) How satisfied are you with the process? (1-5 rating in which 1 = very low satisfaction and 5 = very high satisfaction)

5	Very high satisfaction	
4	Satisfied	
3	Neither satisfied nor dissatisfied	
2	Dissatisfied	
1	Very dissatisfied	



15) What are your views on the relative merits of an internal v external evaluation process?

16) How much do your board members invest in the process in terms of time?

Time:

Up to 1 hour per person	
1-2 hours	
2-3 hours	
4-5 hours	
5-6 hours	
More than 6 hours	

17) How much do you invest in the process in terms of money? Bands or exact amount

18) How would you rate the process for value for money? (1-5 rating where 1 = very low and 5 = very high)

5	Very high value	
4	Good value	
3	Neither good nor bad value	
2	Low value	
1	Very low value	

19) To what extent have you disclosed the evaluation to the public domain?

5	Process, conclusions, actions, generic progress	
4	Process, conclusions and generic action plans	
3	Process and generic conclusions	
2	Process	
1	None	

20) What feedback have shareholders given you on your process?

21) What themes for action were agreed as a result of the analysis?

22) To what extent have action plans been acted upon? (1-5 rating)

5	Very high extent	
4	High extent	
3	Neither high nor low extent	
2	Low extent	
1	Very low extent	

23) What has got in the way of implementing the actions identified?

24) Thinking about outcomes, how satisfied are you with your board's progress, following the evaluation feedback? (1 – 5 scale where 1 = very dissatisfied; 5 = very satisfied)

5	Very satisfied	
4	Satisfied	
3	Neither satisfied nor dissatisfied	
2	Dissatisfied	
1	Very dissatisfied	

25) Overall, how has your board changed as a result of the evaluations done?

26) Of the following 8 aspects, please identify three that have improved the most. And one you would like most still to improve.

		Top 3	1 to improve
1	Technical Competence		
2	Process – the way the board functions overall		
3	Process – the way the board committees function		
4	Appropriateness of agendas & time allocations		
5	Individual behaviour ie personal effectiveness		
6	Team behaviour and cohesion		
7	Quality of decisions		
8	Interaction with management below the board		

27) How have the following 5 aspects improved following evaluations done so far? – please rank them in which 1 = improved the least and 5 = improved the most.

E	Focus on results	
D	Clarity of accountabilities	
C	Level of commitment	
B	Effective conflict resolution	
A	Trust	

28) Do you have a view on how your board compares with others in using board evaluation to improve effectiveness? (1-5 rating where 1 = very low in comparison and 5 = very high)

5	We compare very highly in comparison to other boards	
4	We compare well	
3	We are in the middle of the pack	
2	We are weak in comparison to other boards	
1	We are very weak in comparison to other boards	
0	No opinion	

29) Overall, to what extent do you believe board evaluation is improving your board's performance and mitigating risk? (1 – 5 scale where 1= not at all; 5 = to a large extent)

5	A very large extent	
4	To a positive extent	
3	Some items but not others – neutral overall	
2	No visible positive correlation but believed to be helpful	
1	Not at all	
0	No opinion	

30) What advice would you offer to other boards regarding board evaluation processes?

31) What final advice would you offer the research project?

32) The report of research findings will be published in October this year. Would you like to receive a copy?

33) To which email address would you like it sent?

Thank you very much indeed for your participation in the research. This will remain strictly confidential with no individual comments or people identified. The only reference will be a list of participating organisations at the start of the report.





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