

LITTLE BLUE
BOOK
OF
BOARD REVIEW
OPTIONS



INDEPENDENT
AUDIT LIMITED



FENWILL

BOARD AGENDA

1. EFFECTIVENESS OF EFFECTIVENESS REVIEW STRATEGY
2. EFFECTIVE NNESS OF EFFECTIVENESS REVIEW DECISION
3. EFFECTIVENESS OF EFFECTIVENESS REVIEW
4. EFFECTIVENESS OF RISK REVIEW OF REVIEW
5. EFFECTIVENESS OF DIVERSITY REVIEW OF REVIEW
6. EFFECTIVENESS OF EFFECTIVENESS REVIEWER
7. EFFECTIVENESS OF EFFECTIVENESS REVIEW COMMITTEE

WE'RE GETTING
GOOD AT THIS

FENNELL

“Board evaluation” is not a good label. It sounds too much like a pass or fail test, ending with an unwelcome visit to the headmaster, when actually it’s much better to think of it as an occasion to look at things afresh.

Whatever you call it, it doesn’t have a fixed recipe: you can mix the ingredients to suit your needs, appetite or taste. There’s a very wide range of different things that can be done – whether you’re doing it internally or under the badge of “externally facilitated board review”. What you choose to do will depend on what’s right for you at the time.

But too much choice isn’t always helpful. If you haven’t had an external review before, this guide will help you get your thoughts in order. If you’re an old hand at board evaluations, then maybe it will stimulate your thinking about the cycle you’re following.

So what does it mean for you?

Our guide sets out eight of the main ways in which you can control what sort of review you have.



Then for each of these we've suggested four of the main variations. So you can look at each of the eight topics, decide which variations suit you, and mark your choices in the boxes on each page.

There's no magic to the numbers – you're not looking for a score. It's just a way for you to think through what sort of review you're after. And it will help you spell it out to whoever is helping you do it: that way you're much more likely to get what you want.

One option we haven't included is "upset everyone". Not many would choose that one, but some are concerned it might happen by accident. You just have to find the right reviewer, one who is both skilled and sensitive enough to help you make things better rather than worse.

And note that this little guide isn't trying to identify all the things that need to be thought about when the review is actually being done. It's only about the main things you need to think about before you get started.

1 Why are we bothering?

You need to be clear on this – it determines how thorough you need the review to be. If the time's not right for delving into every corner, recognise it. But when you are confident enough to be up for some good challenge, look for a review approach that will deliver it.

What that means for the review...

We have to be seen to do something



Get the boxes ticked

1

It's good to have confirmation that things are OK



Health check

2

There's something specific that needs fixing



Focused on problem-solving

3

Are we up with the best?



Wide-ranging and challenging

4

2 Self-assessment or an independent view?

The two extremes here are an entirely in-house questionnaire, and a full independent review that includes the reviewer's own commentary as well as feeding back the views of directors. In between these extremes there's a range of options.

What that means for the review...

Leave us to it



Self-assessment, usually with a questionnaire

1

Our own views, but with a bit of practical support



Expert help with creating the questionnaire, analysis and reporting

2

Facilitation to help us take a better look at ourselves



Self-assessment by facilitated individual and group discussions

3

Independent review and report



Interviews, review of board papers and (possibly) meeting observation, leading to a report giving commentary and recommendations

4

3 Whose views?

How the board and committees interact with the business is crucial to effectiveness. So asking those who have contact with the board can make sense – they're bound to have a view! And now and again, speaking to a few external stakeholders can bring fresh challenge or ideas.

What that means for the review...

Ours only		Board directors and company secretary	1
And those who see us most		Directors, senior executives and/or advisers	2
Take soundings from outside		Include the odd shareholder, broker or maybe even regulator	3
I wonder what the troops think about us		Plus a wider range of managers	4

4 What's it got to cover?

Committees do a lot of the work for boards, often in areas that are critical to the board's reputation and risk exposure. The output expected from a committee is usually more clearly defined than it is for a board, so a different sort of look at the main committees from time to time – probably not every year – can be a good idea. But committee reviews need specialist skills, which could influence your choice of adviser.

What that means for the review...

How well the main board is working



Focus on the board, and take in the committees in passing

1

Concentrate on one or more committees this time



Committee effectiveness, and their relationships with the board

2

Effectiveness of both the board and its committees



A thorough look at the board and the committees

3

How well it all works together, and how the individuals involved are playing their part



The lot, plus individual directors

4

5 Process or (and) behaviour?

The mechanics need to be in good order – if the processes aren't there, you're stuck. And without the right information, even the best board is hampered. But even when everything else is sound, it really boils down to boardroom behaviour. So at some stage you'll want to look at the people around the table and how you work together.

What that means for the review...

Does management make good governance easy by organising things well and providing good information?



How process, structure and information support the board

1

Are we spending our time as productively as we might?



Plus agenda planning and meeting management

2

Do we have the right mix of people round the boardroom table, and are we steering the right course between confrontation and collegiality?



Plus skills/experience, culture and dynamics

3

Is the board more than the sum of its parts?



Effectiveness of everyone and everything working together

4

6 Focus on..?

At different times you might want to give the review particular focus, such as on board dynamics or the information flows. If so, what you look at will depend on your specifics and we're not setting them out here. But there's one area we do flag for a closer look: risk oversight. Elsewhere the board can rely on established assurance processes, but when it comes to knowing that risks are identified and managed, it's often up to the board to form its own view – so from time to time it needs to check that it does it well.

What that means for the review...

Is it clear who does what on risk?



Structures and terms of reference

1

Can we see clearly what management is up to?



Oversight of management

2

How joined-up is everything, and are there gaps?



How the risk management processes and information support the board

3

Do the risk management processes within the organisation deserve the trust we place in them?



Robustness of risk processes and assurance

4

7 How much challenge?

The style of a review can vary. What you want will partly depend on your board's frame of mind. If you're just emerging from a difficult stretch, or still settling down, you might want a lighter approach. At a different point a bit more rigour might be in order.

What that means for the review...

Reassuring



Light touch

1

Being listened to



2

Thought-provoking



3

Challenging



Challenging

4

8 What sort of report?

Writing a good report takes a lot of time, especially if careful diplomacy is required. So if you're very anxious to contain costs, one way is to limit what you ask your reviewer to produce as output! However, it's best not to be dogmatic on this one from the outset. The best means of reporting will ultimately depend both on the style of your board and on the review's findings.

		<i>What that means for the review...</i>	
Cheap and cheerful		Informal discussion	1
Essentials for improvement only		Short form report eg bulletpoint agenda for discussion	2
Wide-ranging, including strengths as well as recommendations		Long form report with action plan and presentation to the board	3
Enough discussion time for the board to find its own answers		Board workshop	4

Some other considerations

Rotation

Good practice is to have external facilitation every two or three years. So some sort of rotation might be best, with the advantages of spreading cost and preventing staleness. The most common is simply to balance periodic external review with self-assessment in the off-years.

Quantitative or qualitative

If you want the output to come in the form of scores (eg 3.8 out of 5), then you need some form of questionnaire. However, it can be difficult to interpret purely quantitative results, especially if you focus on the averages. So qualitative review is now often preferred. Interview-based approaches give the best qualitative results, but carefully designed questionnaires such as those in our on-line **Thinking Board** service can also be used successfully if sufficient energy goes into their follow-up.

Timing

Don't think you can only do a board review in the run-up to the annual report. That's what too many think already, and there's no need for you to be scrambling around in the same congested time-frame. You can do it at a different time of the year and still have something good to say in your corporate governance report.

What the future holds

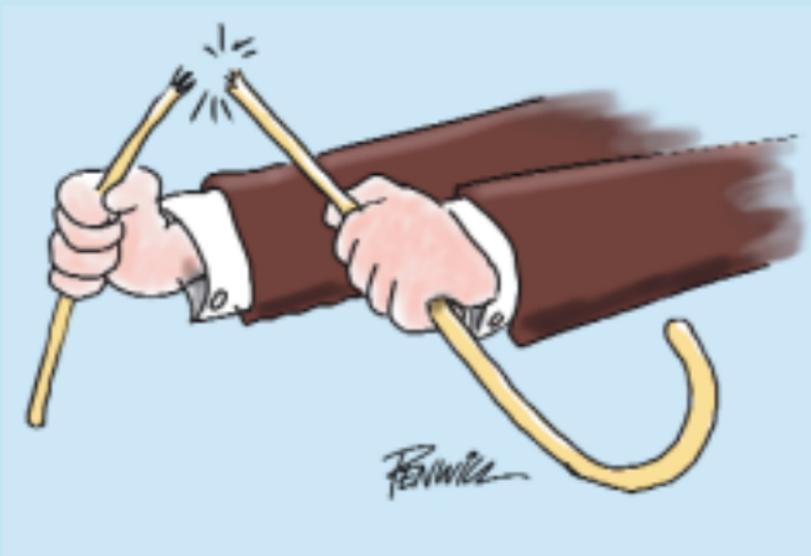
If there's major strategic change just happened or coming up, or the competitive conditions are altering markedly, then your board review shouldn't just be looking at how well the board is operating in current conditions. It should help you to think about the needs and challenges ahead, and how the board might have to change if it's to have the best chance of staying on top of things in different circumstances.

Budget

You will have gathered that when it comes to board review there's a lot of permutations available, with quite a wide range of potential costs. So as well as having an idea of what you want to get out of your board review, you should also have some idea of what you want to pay. The scope can then be tailored to fit your budget.

And if all else fails...

Then at least be clear on what you *don't* want!



Whatever you choose for your board review, we can help you. Our expert consultants have experience across all industries and types of organisation, while our on-line service *Thinking Board* captures that experience in a user-friendly and efficient tool.

For more information call Jonathan Hayward or Belinda Hudson.

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