The Effective Board

INDEPENDENT AUDIT
BOARD REVIEW

September 2016

In danger of being caught short?

A lot of companies are getting into the habit of planning their board reviews earlier. But still we find that, with only three months from most companies' year-ends, we're still receiving some requests for interview-based board reviews to be completed by then. There's very little spare capacity amongst the top-quality reviewers at this busy time of year. So what should you do if, for some reason, you're in danger of being caught short?

Good practices to consider...	Things to avoid...
Break free of the annual calendar. There's no rule that says board reviews have to be done by the year end, or even by the time the annual report goes out. We've seen annual reports that simply describe how a thorough review, is underway and no-one has batted an eyelid. If you're worried about what actions to report you could explain that they will be added to the website – it's not ideal and not strictly in compliance. But it's better than failing to get the sort of review you want – and a convincing explanation along these lines should acceptable.	Having a poor quality and low-value review, just to meet the demands of the calendar. The purpose of a board review is to help the board improve – think of it as an element of continuous improvement, which isn't a one-off event (there's a clue in the name!). Investors want to see that the board is taking improvement seriously, and that's more important than any arbitrary deadline.
If for some reason you can't break free of the calendar, think imaginatively how to do something useful in the time you've got. This probably means a self-assessment exercise, but there's no reason why this has to be boring. The remaining points in this bulletin are about how to get the most from a self-assessment.	Letting it default into a tick-box effort just so you can say you've complied. No-one's going to find that very useful and it won't even get you any brownie points with investors, so why waste the board's time going through the motions? (And don't forget that self-assessments can be externally facilitated, which takes less time and so is easier for busy reviewers to fit in at shortish notice.)
Pick up on the main issues from last year and use your self-assessment to go into more depth. You'll want to get an idea of progress – but more importantly you'll also want to understand better whether the underlying issues and root causes have been addressed.	Simply asking the same question as last time around. That might well help you track changes but that might be of limited value: the respondent group and circumstances may will have changed. Better to make sure you're digging deeper and getting more insight.
Give it a more specific focus. Most board reviews show up just a few core issues: typically at the moment many boards are working out how best to tackle risk and succession – and of course – the information problem rarely seems to go away. So drill down looking at the different aspects of one or two tricky areas. It's still meeting the requirement for an effectiveness review – you're simply (and sensibly) concentrating on areas which you know need work.	Covering, yet again, all the different aspects of effectiveness – and doing it in a shallow way. Certainly, if you've covered the "process" angles before (timing, frequency, support…) and not identified any significant issues, you could drop those. And, unless anything significant has changed, the standard work of committees might go a year without much attention.

Good practices to consider…	Things to avoid…
Think through what's changed in the business – then home in on what might have changed the effectiveness equation – or be going to change it in the foreseeable future. A new CEO? A major acquisition? Some compliance problems? Profit warning? Sustained weakness in the share price? Bad publicity? Consider the governance angles and how the work of the board and committees might need to adapt – or even if it could have been part of the problem. Once you've worked that out, review the focus and questions.	Sailing on as though nothing has changed. The review should be looking at how the way the board works might have changed – or need to change – in the light of events or developing trends in the business or environment. Not to mention significant changes in the composition of either the board or the senior executive team.
Position the questionnaire in the context of change by asking respondents to take into account how changes might be raising questions about the board's effectiveness and working style.	Simply issuing the questionnaire without pointing out the changes and influences that should be considered. "Please respond to the questionnaire" is not likely to inspire, but adding an introduction along the lines of "respond taking into account a, b and c" sets quite a different tone and gets people thinking harder.
Think about the changing expectations of investors, regulators and code setters – as reflected in their questioning or changes to the Code and guidance. You don't want to let that be the sole determinant, of course, but it's worth thinking through the way the board is responding to, say, noise around executive succession, oversight of culture, risk evaluation and appetite, cyber risk…	Thinking through effectiveness as purely an internal matter. The board's normal work recognises that need to be responsive to shareholder concerns and regulatory change. Likewise its effectiveness review should factor in how the board is acknowledging external stakeholders' priorities.
Extend the response group to cover those who have to support the board, ie the wider executive and senior management team (and for the committees, the head of internal audit, group financial controller, external audit partner, HR director, remuneration advisor…). These people experience the board's oversight and leadership first-hand so they will have a useful perspective. Often they'll have ideas on ways of getting more value from the time spent on governance. Whatever their views – positive or negative – it's certainly worth finding out.	Thinking that only the directors know what's going on in the boardroom, so others' views don't count. That doesn't apply in other walks of corporate life (eg annual appraisals, team reviews, project assessments…) when obtaining a wide range of others' views are seen as part of getting it right. So don't just ask the board for its own opinion of its performance. Of course others might not see the whole story – but views from multiple different perspectives can add up to very useful additional insight.
Remember that you will be reporting on the style and main findings of the effectiveness review. So, in setting the focus, think how much more convincing the story will be if the review has evidently been well thought through and responsive to change and stakeholder interests.	Reporting the review in a way that makes it sound a compliance exercise, or even worse an exercise in self-congratulation. Investors don't expect all the dirty washing to be aired, but they do respond to the board showing that it's keen to learn about how it can improve.

And finally…in the June 2014 edition of The Effective Board we discussed the "do's and don'ts" of internal self-assessments. You can find the full version by clicking here but, as few of us can remember points from two months ago never mind two years, the main points are summarised here as a reminder:

Good practices to consider…	Things to avoid…
Make sure the questionnaire is about identifying opportunities for the board to work better…	…and not about producing "an effectiveness score".
Get the Chairman to show real support for the exercise…	…and not simply letting it drop into mailboxes with no introduction.

Good practices to consider...	Things to avoid...
Ask for opinions in a way that prompts comment through open questions and informal language…	...rather than closed questions that invite a "yes/no"response pr use uninspiring Code wording.
Craft the wording carefully so that the question is clear and will be understood by all in the same way…	…and not either so short that they can be interpreted differently or so subtle that that might not be understood.
Think carefully about the scoring system bearing in mind the need to find opportunities for improvement…	…and not just use scoring ranges where there's little opportunity to differentiate on the downside.
When it comes to reporting on the results, keep it short and focused on the main points, sprinkling it with (non-attributable) quotes to add flavour…	…avoiding simply giving the score (boring) or pages and pages of charts and comments (indigestible).

If you haven't already done so, take a look at our online self-assessment tool, Thinking Board®. When thoughtfully used, it gives you more insight than ordinary questionnaires so it will help you to get more out of the exercise, even if you don't have much time for it. You can use it alone or with our facilitation (which turns it into an externally-facilitated review).

INDEPENDENT AUDIT

Independent Audit are leading specialists in governance, risk and assurance. We help clients understand and improve the effectiveness of their governance, including the board and its committees, internal and external audit, and risk governance.

If you have any questions on the issues covered here, please contact Richard Sheath at richard.sheath@independentaudit.com

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