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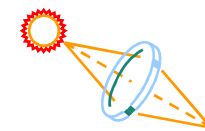
Enhancing Board Effectiveness

IPCG – Instituto Português de Corporate Governance – Seminar

Lisbon, 18th September 2008

Ashley Summerfield

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Why are Boards choosing to undertake the exercise?

In most European countries the governance codes now require companies to undertake some form of board assessment

- Across Europe there is an increasing trend to "comply or explain"
- By contrast, in the US it is now a legal requirement
- In the United Kingdom the majority of major companies now report in their Annual Reports what actions they have taken in terms of board evaluation

Chairmen are increasingly interested in benchmarking and tracking board effectiveness

- Growing recognition of the potential of a well functioning board
- Appetite to introduce some form of measurability is emerging

Positive experiences of reviewed boards spread to fellow board members in other companies

- "Multiplier effect" as board members on multiple boards become exposed to good practice
- Word of mouth

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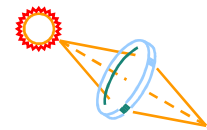
The Number and Types of Boards Undertaking Reviews is Expanding – Some Recent Examples

Process and Behaviour **Both** Influence Good Decision Making - the True Measure of an Effective Board

Clear understanding of what Board is there to do	→	Process at the Board	→	Behaviours at the Board	→	High quality dialogue	→	Better decisions

Questionnaire or "structured discussion framework"

Sensitive listening to colleagues' observations on each other

Data Acquisition →

Data Analysis and Interpretation

Data Presentation →

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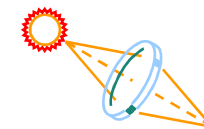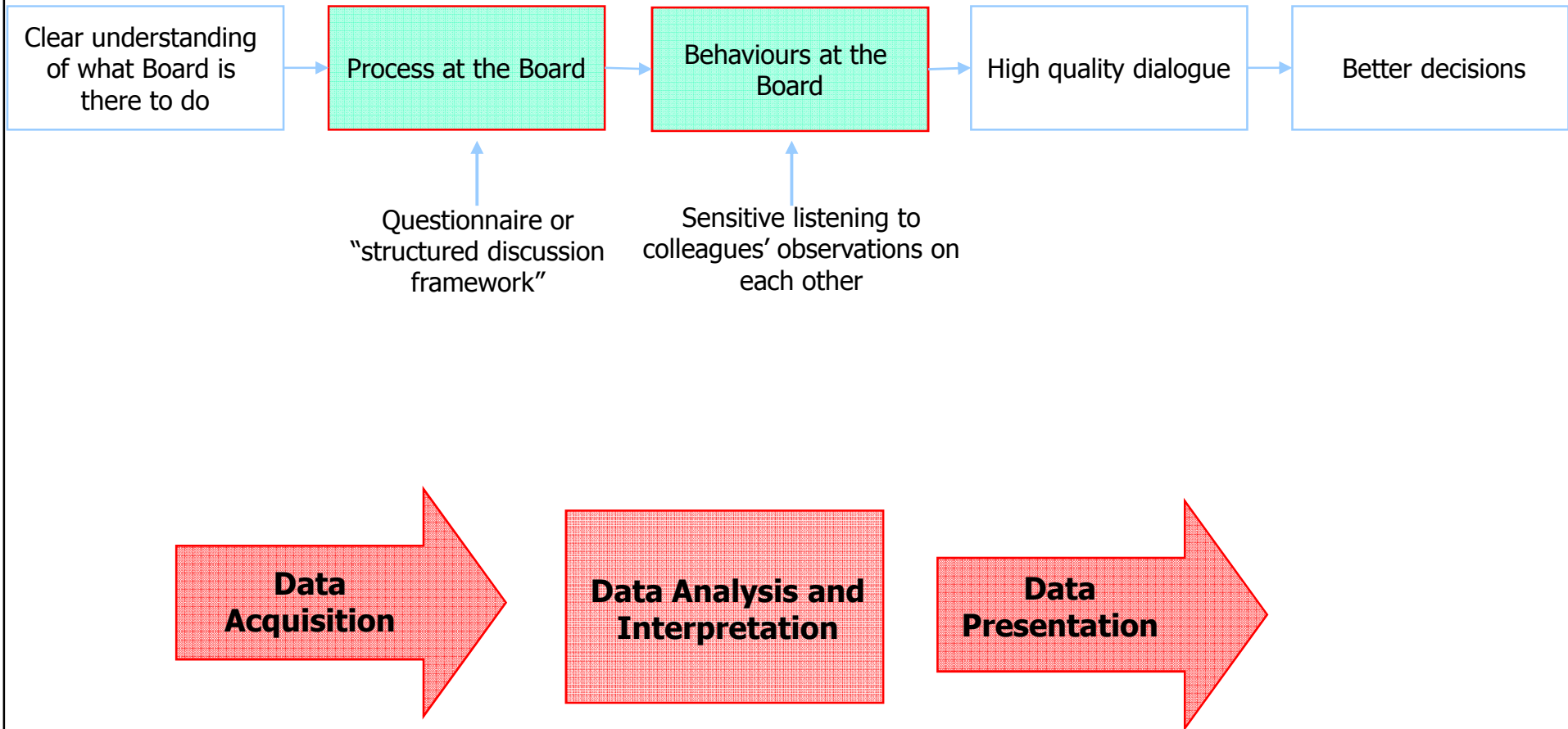
Different Businesses have wanted different approaches

	Structured Discussion Guided interviews	Questionnaire Discussions based on questionnaire responses	Quantitative Analysis Discussions based on questionnaire responses
Review of Group & Process (Process)			
Review of Group & Process & Individuals (Process and Behaviour)	Scottish & Newcastle TP Travis Perkins	J Sainsbury plc THE BANK OF ENGLAND	Cadbury Schweppes BARCLAYS

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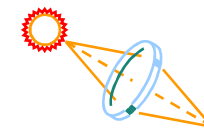
Initial lessons on how to undertake a Board Review

Internal vs. External
- Initial reluctance to reveal the internal dealings to outsiders
    - but early reviews often seen as tick-box and procedural
- Benefits of using external facilitators have become more widely accepted and valued
    - objectivity, benchmarking, drawing out insights and providing candid feedback

Quantitative vs. Qualitative
- Initial nervousness led most boards to take tentative approaches and a "lite" touch
- Qualitative approach evolved as reaction against tick-box styled processes
    - *qualitative feedback is more likely to lead to behavioural change*
- Now board reviews are more widely accepted as an annual requirement, the importance of tracking progress has emerged as a priority
- As such, a 'hybrid' approach is now starting to gain traction, this being a streamlined questionnaire with scales combined with high quality debate

Approach to Personal Feedback
- Egon Zehnder has given direct feedback to board members in virtually all Reviews and typically shares the feedback on the Chairman with the SID
- The Chairman then follows up with each individual Board member to discuss and reflect

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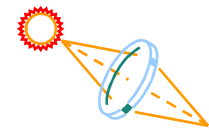
Identified common challenges for improving board effectiveness

Common problems in underperforming Boards	Five key actions to creating truly effective boards
Insufficiently rigorous Board selection processes	Appoint the right chairman
Lack of sufficiently complementary skills within the Board	Choose the right directors
Underutilization of the existing skills	Make succession planning the first priority
Some individual directors lacking in appropriate skills	Review the Board's collective and individual contributions
Board meetings not well structured - hampering effective decision making	Focus on a few key agenda items

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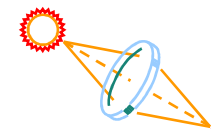
Analysis of all board reviews generates a "Report Card" for Europe

Board Structure

- ○ Board composition

Board Dynamics & Relationships

- ○ Relationships and interactions
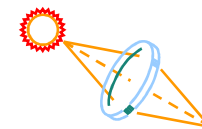- ○ Board meetings and dynamics

Board Processes

- ○ Information flows
- ○ Decision making processes
- ○ Reporting to shareholders and stakeholders

People & People Processes

- ○ Induction and development
- ○ People evaluation
- ○ Succession planning

Company Strategy & Performance

- ○ Company strategy
- ○ Company performance

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Board Member X
Personal Feedback from Board Effectiveness Review

STRENGTHS/CONTRIBUTIONS		SUGGESTIONS
• Makes effort to attend management conferences which is appreciated. Also means is a known face in the comp___ which helps sustain company culture • Good business/organisational understanding fro___ • Well rounded business leader with helpful br___ experience • Perceived as handling Chairman's feed___	**RESULTS**	• Perceived as being more UK oriented, so could continue to develop international / global knowledge
• Stepped in and acted as defact___ ___nich has been appreciated. Ironed out som___ with institutions • Has brought a more ba___ ___g impact to discussions/decisions on ___ ___ion	**COMMITTEES**	• Could ask more consumer/marketing questions
• Well respected as Deputy Chairman and as potential successor to Chairman. Clearly has strong support • "Has real gravitas and is very well rounded"	**LEADERSHIP**	• Given succession, Board members feel it would be right to scale up his involvement to ensure independence and seamless transition
• Been very supportive of Chairman and CEO as good counsel and helpful sounding board. Skilled in providing feedback and in mediation at Board level • Makes value added, measured contributions. Doesn't speak out that often but always adds value • Good communicator. Has professional and mature presence. People listen to him • Effective listener and good at synthesizing different views and consolidating opinions. Trusted to handle the big, sensitive issues as has done so already on several occasions • Good at fashioning compromise	**STYLE**	• Some perception of being overly process driven at times • Can afford to be more challenging in open forum / Board meetings • Could express his own opinions more freely
• Adds value as well connected with UK Boards and institutions • Very conscientious Board member • Recognised as sharing the company values • Considered a highly valued colleague and a leading contributor to the Board	**OTHER**	

ILLUSTRATIVE

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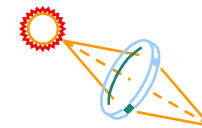
Final Thoughts

Board Reviews are becoming the norm

      - Spreading across Europe

"Internal" moving to "external"

      - Evaluation evolving to facilitation

Qualitative vs Quantitative remains a choice

      - But trackability favours some form of scoring

Improving competencies and behaviours is more important than improving process

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