



Board impact

Thinking differently about boards

Opinion piece by Dr Jay Bevington, Tracy Gordon and Melissa Scully

“As we have seen time and time again – the scrutiny [non-executive directors] provide is just not good enough.”

These were the words of Theresa May in July 2016 when she launched her national campaign to become the UK's new Prime Minister. Harsh words or fair? Whatever your view, we are living in a time where public, regulatory, investor and media scrutiny of the activities and decisions of UK boards has never been higher. Governance reform, be it through legislation and/or changes to the UK Corporate Governance Code, is on the horizon and the role and professionalism of the board are key areas of focus.

To respond effectively to this environment, boards need to be able to demonstrate that they are worth it. One of the best ways to show that boards matter is to evidence their impact. This short opinion piece focuses on what we mean by ‘board impact’, the qualities of boards that have a positive and demonstrable impact and how to go about measuring or evaluating that impact. However, first we will consider the role of the board.

What is the role of the board?

To understand impact we must begin by having a clear understanding of what boards are there to do. Board responsibilities have evolved and continue to evolve.

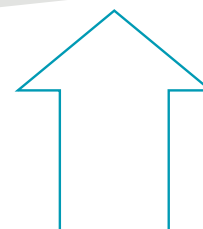
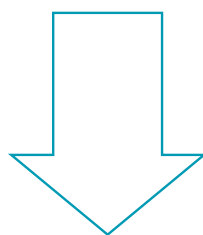
There are two key aspects to the board's role – supervisory and stewardship. The balance of effort between these two roles will be driven by the maturity of the organisation and the environment within which it is operating.

Stewardship

- Informing and helping to shape the future direction and health of the organisation with the executive
- Advising on areas of investment
- Fostering greater innovation
- Responding to the changing geopolitical and technological environment
- Developing organisation talent and culture

Supervisory

- Appointing the CEO
- Approving strategy and overseeing the executive's implementation of the strategy
- Holding the executives and management to account for performance
- Overseeing risk and compliance



What does positive board impact look like?

We routinely come across boards that describe themselves as effective because the organisation that they govern is successful. However, this does not always follow. Organisational success could be the product of a strong and dominant CEO, an established brand or reputation that attracts a highly motivated and talented workforce and/or favourable market conditions. Boards should not, therefore, assume that if the organisation is successful this is all down to them.

The impact that a board has is largely mediated through the executive. Executive directors on high impact boards describe ideas, plans and initiatives that have changed for the better as a result of board-level scrutiny and debate. They respect the board and prepare thoroughly for board-level meetings. They can give examples of individual non-executive directors demonstrably adding value to their executive portfolios through the support and advice they have provided. Other examples of board impact include:

- decisions or actions that are stopped, slowed down, changed, started or speeded-up as a result of board-level dialogue;
- spotting or amplifying opportunities and/or risks;
- providing support to management in implementing some tough changes;
- appointing the right CEO for the organisation and the timely removal of underperforming executives or executives that do not behave consistently with the values of the organisation;
- sharing insights into external factors, such as disruption, market trends or geo-political factors, and how they might impact the organisation;
- evidence that board decisions have achieved the results intended and these results have been sustained; and
- promptly addressing concerns raised by external stakeholders.

It is important to acknowledge that as well as positive impact, boards can also have a negative or no impact resulting from, amongst other things, inaction or indecisiveness, failing to address early warning signs, or not providing sufficient challenge.



What are the qualities of high-impact boards?

In our experience, high-impact boards demonstrate a number of qualities. These include:

- **Outcome focused** – they assure themselves that key decisions have been implemented and have had the positive impact that was intended;
- **Skills and experience** – the board continually reviews its own capabilities to ensure there is a broad and diverse mix of skills and experience that aligns with the future strategic direction of the organisation and the risks it is facing;
- **Healthy dynamics** – directors work effectively together, trusting and respecting one another and striking the right balance between support and challenge;
- **Highly engaged** – the board has a good understanding of its stakeholders and engages with them at an appropriate level. When making decisions, the impact and consequences on key stakeholders are considered;
- **Continuous reflection and learning** – they review the impact they are having on a regular basis by listening to the perspectives of those outside the boardroom;
- **Individual contributions** – they continually review the contribution and performance of every member of the board, executive and non-executive;
- **Agenda** – the board is supported with a forward looking agenda that covers both its supervisory and stewardship roles, and provides sufficient time to discuss and debate the areas where it can add the most value; and
- **Information** – the board ensures it is provided with insightful information and analysis, as well as forward looking information. Board packs should include trend analysis, leading (as well as lagging) performance indicators, financial and non-financial metrics; and soft as well as hard measures.

How can impact be measured or evaluated?

If undertaken correctly, board performance evaluations can be an effective tool for measuring board impact. However, in our view many board evaluations are flawed because they are restricted to examining the inputs to the board (e.g. people, structures, agenda and information) or at best the board's processes (e.g. quality of debate and challenge, relationships). They fail to look at the collective effectiveness of these inputs and how they translate to outcomes, in other words – board impact.

In addition, evaluations can often just be an introspective activity driven by board members' perceptions of the effectiveness of the board. Whilst this is an essential foundation of any board evaluation, it omits other potentially rich sources of information on how the board's performance affects its stakeholders. Gathering stakeholder views enables the board to consider a more comprehensive set of data on its performance and can identify areas for improvement the board may have missed.

To be comprehensive in their reach and meaningful, board evaluations should therefore always include consideration of:

- examples, supported with evidence, of the board effectively discharging its supervisory and stewardship roles;
- how effective individual board members are in their role, considering both their skills, knowledge and networks, their commitment to the role and ultimately the overall value of their contribution;
- the perspectives and opinions of people outside the board (people employed by the organisation, investors, regulators etc.); and
- the qualities of high-impact boards described above.

Annual board evaluations are now common place for FTSE 350 companies and public sector organisations. In its recent report, the BEIS Select Committee recommended that the FRC should be given the extra role of overseeing the rigour of the board evaluation process to ensure that it is genuinely independent, thorough and consistent across organisations. In light of this we expect boards to consider the effectiveness of their current evaluation processes, and any improvements that can be made.

Thinking about your board

Employees, shareholders, regulators and other stakeholders place their trust in boards. If they are to retain that trust and confidence, boards must demonstrate their ability to add value and make a positive difference to the organisations that they are governing and their stakeholders.

To help your board deliver greater impact, we recommend that you start by:

- Reviewing your board activities for the past twelve months – how do they balance between supervision and stewardship? Are you comfortable with that balance?
- Asking how you would evidence the impact that your board is having?
- Considering whether your board performance evaluation process is placing sufficient focus on impact (as described above), including challenging whether that process really provides a comprehensive and honest appraisal of the contribution of each member of the board.

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