

Board Performance
Evaluations

Board Performance Evaluation

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Case Study

- Piloting an externally facilitated Board performance review
- UK Building Society/Mutual
 - Not equivalent to FTSE 350
 - However...
- Financial Services Authority
 - Keen that all organisations it regulates undertake internal/external Board Performance Reviews

Case Study

- Conversation with the Chairman August 2010
- Board approval August 2010
- Non-disclosure agreement September 2010
- Scheduled collection of papers and observations of meetings October 2010
- Questionnaire sent for review by Chairman, Chief Executive and one Non-executive Director and amended December 2010

Case Study

From - SECTION A: LEADERSHIP

The Board...

... effectively assesses and manages risk

... effectively sets the organisation's strategic aims

... effectively sets the company's values and standards

... effectively and regularly reviews management performance

... ensures it fully understands its obligations to its shareholders and others

... meets sufficiently regularly to discharge its duties

... operates with a clear division of responsibility between the Chairman and the Chief Executive

Case Study

- Amendments to the standard questionnaire:
 - Very few
 - None material:
 - » Organisation becomes “Society”
 - » Shareholders becomes “Members”
 - » Reference to “Major Shareholders” removed
 - » Reference to “Share Options” removed
 - » Reference to “Articles of Association” removed

Case Study

- Collect Board & Board Committee agenda & minutes January 2011
- Observed Board meeting & Board committee meetings (+AGM) January - March 2011
- Questionnaires completed by all Directors and Company Secretary February 2011
- Interview all Directors and Chairman March 2011

Case Study

- 1st Draft Report April 2011
- Final Report May 2011
- Contents
 - 1.0 Executive Summary
 - 1.1 Scope and objectives
 - 1.2 Key matters arising from the audit
 - 1.3 Opinion
 - 1.4 The way forward
 - 1.5 Acknowledgement
 - 2.0 Detailed Findings
 - 2.1 Leadership:
 - 2.2 Effectiveness:
 - 2.3 Accountability:
 - 2.4 Remuneration:
 - 2.5 Relations with members:
 - Appendix A - Responsibilities, Approach and Scope

Case Study

- Final Report May 2011

In respect of the UK Corporate Governance Code June 2010; are the behaviours, activities and actions of the Board that we examined and observed, fit to facilitate effective, entrepreneurial and prudent management that can deliver the long-term success of the Society	Yes
Number and rating of areas of potential improvement identified	High 0 Medium 0 Low 0

Case Study

- **2.0 Detailed Findings**
- **2.1 Leadership:**
- Every organisation should be headed by an effective Board which is collectively responsible for the long-term success of the organisation.

Action Plan

Findings with respect to how the Board works in respect to the long-term success of the company; whether Board members understand their statutory duties and act in the best interest of the company; whether the Board is effective in setting the company's strategic aims, objectives, values and standards; if the Board ensures that the necessary financial resources are in place; if it regularly reviews management performance and fully understands its obligations to its Shareholders and others and fully meets these obligations; whether the Board meets sufficiently regularly to discharge its duties; whether the Board has a clear division of responsibilities between the Chairman and Chief Executive; if it ensures that any concerns that cannot be resolved about the running of the company or proposed actions are recorded in the Board minutes.

Recommendation(s):

Rating: (high/medium/low)

1. (recommendations made if appropriate)

Management Response: accepted or not
xxx

Date for Implementation / Responsible Officer:

Xxx / xxx

Key Findings

- All Directors picked up areas for improvement from filling in the questionnaire alone
- The review of documentation and observation of meetings provided important information for the interview stage
- The questionnaire and interviews highlighted clear areas for improvement
- The whole Board agreed the recommended actions and identified no gaps or shortcomings

Key Findings

- Pilot ran completely smoothly
- Pilot did not disrupt the workings of the Board or the organisation
 - Directors 30 minutes for the questionnaire, 1 hour interview
 - Minimal time commitment from the Chairman and Chief Executive in addition to above
- Time efficient, pragmatic and effective review

Our Approach

- Analysis of 12 months of board agendas, minutes and a selection of board papers
- Observation of board and board committee meetings
- Each Director completes a comprehensive questionnaire (*can be used on its own for annual internal evaluation*)
- Interview with each Director
- Combined analysis and report

Our Approach

- Holistic nature of the Code
 - taken in its entirety the Code encompasses every aspect of board performance
 - a board should be assessed against the entirety of the code
 - this is a completely manageable task
- Methodology developed utilising the skills of our research background

Background to the Code

- Traced back to corporate collapses of the 1970s
- Current Code developed from a series of Government commissioned reports:
 - Cadbury 1992 – *Functions of the Board/Role of Auditors*
 - Greenbury 1995 – *Director's remuneration*
 - Hampel 1998 – *Corporate Governance*
 - Turnbull 1999 – *Internal Control*
 - Higgs 2003 – *Non-Executive Directors*
 - Walker 2009 – *Code Review*
- The Combined Code in June 2008
- The UK Corporate Governance Code in June 2010

The UK Corporate Governance Code June 2010

- The purpose of corporate governance is:

“to facilitate effective, entrepreneurial and prudent management that can deliver the long-term success of the company”

The UK Corporate Governance Code June 2010

Corporate governance is the system by which companies are directed and controlled. Boards of directors are responsible for the governance of their companies. The shareholders' role in governance is to appoint the directors and the auditors and to satisfy themselves that an appropriate governance structure is in place. The responsibilities of the board include setting the company's strategic aims, providing the leadership to put them into effect, supervising the management of the business and reporting to shareholders on their stewardship. The board's actions are subject to laws, regulations and the shareholders in general meeting.

Comply or Explain

- The Code is not a rigid set of rules. It consists of principles (main and supporting) and provisions.
- The Listing Rules require companies to apply the Main Principles and report to shareholders on how they have done so.
- The principles are the core of the Code and the way in which they are applied should be the central question for a board as it determines how it is to operate according to the Code.

The Main Principles

- Leadership
- Effectiveness
- Accountability
- Remuneration
- Relations with Shareholders
- *Supporting Principles*
- *Provisions*

Leadership

- Every company should be headed by an **effective board** which is collectively responsible for the long-term success of the company.
- There should be a clear **division of responsibilities** at the head of the company between the running of the board and the executive responsibility for the running of the company's business. No one individual should have unfettered powers of decision.
- The **chairman** is responsible for the leadership of the board and ensuring its effectiveness on all aspects of its role.
- As part of their role as members of a unitary board, **non-executive directors** should constructively challenge and help develop proposals on strategy.

Effectiveness

- The board and its committees should have the **appropriate balance of skills, experience, independence and knowledge** of the company to enable them to discharge their respective duties and responsibilities effectively.
- There should be a formal, rigorous and transparent procedure for the **appointment of new directors** to the board.
- All directors should be able to allocate **sufficient time** to the company to discharge their responsibilities effectively.
- All directors should receive induction on joining the board and should regularly update and **refresh their skills** and knowledge.
- The board should be supplied in a timely manner with **information in a form and of a quality** appropriate to enable it to discharge its duties.
- **The board should undertake a formal and rigorous annual evaluation of its own performance and that of its committees and individual directors.**
- All directors should be submitted for **re-election** at regular intervals, subject to continued satisfactory performance.

Accountability

- The board should present a balanced and understandable **assessment of the company's position and prospects**.
- The board is responsible for determining the nature and extent of the significant **risks** it is willing to take in achieving its strategic objectives. The board should maintain sound risk management and internal control systems.
- The board should establish formal and transparent arrangements for considering how they should apply the corporate **reporting** and risk management and internal control principles and for maintaining an appropriate relationship with the company's auditor.

Remuneration

- Levels of remuneration should be sufficient to attract, retain and motivate directors of the quality required to run the company successfully, but a company should avoid paying more than is necessary for this purpose. A significant proportion of executive directors' remuneration should be structured, so as to **link rewards to corporate and individual performance**.
- There should be a **formal and transparent procedure** for developing policy on executive remuneration and for fixing the remuneration packages of individual directors. No director should be involved in deciding his or her own remuneration.

Relationship with Shareholders

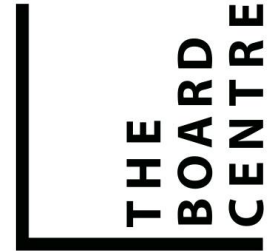
- There should be a **dialogue** with shareholders based on the mutual understanding of objectives. The board as a whole has responsibility for ensuring that a satisfactory dialogue with shareholders takes place.
- The board should use the **AGM** to communicate with investors and to encourage their participation.

De Montfort University

- We are:
 - A university of quality and distinctiveness, distinguished by our life-changing research, dynamic international partnerships, vibrant links with business and our commitment to excellence in learning, teaching and the student experience.
- We have:
 - 20,000+ students
 - 3,000 staff
 - an annual turnover of £158m
- We contribute:
 - £389m annually to the local economy, supporting 12,000 jobs

Stephen Peak

- Director of Corporate Development - De Montfort University
- Managing Director - De Montfort Expertise Ltd
- Fellow of the Institute of Directors
- Regional Council Member - Confederation of British Industry (CBI)
- NED
- Trustee
- Academic
- Author
- Consultant
- National Judge – EFQM Business Excellence Model
- Judge - Leicestershire Business Awards
- Group Managing Director
- Industrial Engineer
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