

This Guidance Note is for the information of UKGI staff. It is not to be circulated outside of UKGI.

Guidance Note 1

Board Effectiveness Reviews

July 2018

This Guidance Note is intended as a **Guide to the key issues to address** in relation to Board Effectiveness Reviews - to help you when you are advising a Board or Shareholder, either as Shareholder team and/or as an NED.

You may often need to convince a sceptical audience of the need for and benefits of a Review and then advise on how to go about it, including the need for transparency.

Further reading is in the links below. **Please review these and send your experience, presentations etc. to Tim Martin for addition to our best practice database on the subject.**

Why have a Board Effectiveness Review?

UKGI considers the Board crucial to the governance of any organisation even when only an advisory Board. It sets the 'tone' and is ultimately responsible for performance, strategy, values, and risk. It is the principal lever through which UKGI exercises most of its governance roles and moreover 'Great Boards consistently make good decisions'.

Regular reviews are a Corporate Governance Code requirement and UKGI considers them essential to maintain quality and effectiveness – so we keep track of when our portfolio companies hold these, who they use for the review, and the quality of the review.

What is a Board Effectiveness Review?

Evaluation of Effectiveness and Performance at two levels:

- Board as a team - does it have structure, processes, people and performance to deliver?
How does it interact with the executive and stakeholders and are roles clear?
- Each Board member- current and potential contribution, values, competencies, relevance.

Key questions for approach to reviews relate to **frequency, whether review is internal or external, who should lead, follow up actions and disclosure.** Always emphasise the importance of transparency. UKGI requires an internal review annually and an external review every three years but you should consider if there are special circumstances for an external review at other times e.g. prior to or following a major Board refresh.

Internal Reviews

Timing: UKGI Corporate Principles require at least annual internal reviews

Process: Typically based on a questionnaire* run by HR or Co Sec.

Options for lead: Chair - ultimately carries responsibility for Board effectiveness but may not be appropriate where role of Chair requires particular scrutiny.

Alternatively, the SID/Head of ARAC is a good option as the Board 'conscience'.

*Main subjects covered include: the Board meeting, NEDs' contributions, Board/executive dynamic, KPI clarity, Chair competence and behaviour, risk, training needs, overall effectiveness, committees, suggested improvements. A typical *Internal Review Questionnaire* is [here](#) but there is also the option of an externally managed internal review. This can bring greater challenge and discipline into the process. Good examples of this approach are [here](#) and [here](#).

We are also considering introducing a UKGI standard for all portfolio businesses.



This Guidance Note is for the information of UKGI staff. It is not to be circulated outside of UKGI.

External Reviews

Timing: *UKGI Principles* require an external review at least every three years.

Process: similar basics to Internal reviews but typically more detailed and greater focus on specific issues e.g. poor relationships and behaviours, inappropriate composition, unclear strategic direction, inefficient processes, succession issues and is the Board having the right conversations? Emphasis varies with the reviewer and circumstances. Some examples of *Approaches by External Reviewers* are [here](#) and [here](#).

Options for lead: similar considerations to an Internal review. There may be a case in circumstances where we have concerns about the capability of the Chair/SID to effectively run the process for UKGI to lead as UKGI more independent but the Review must be 'owned' by Board. In any case it will be carried out by an external specialist.

Note that there is a wide range in Quality, which UKGI considers crucial, and in Price (£12-60k).

Choice may come down to size of perceived problem:

- High end sole practitioners – most effective but costly
- Head hunters -also costly and usually very effective but possible conflicts (new hires!)
- 'Big 4' – can be cheaper but can be less challenging
- Other sole practitioners – usually cheaper but quality variable.

A Schedule of Recent UKGI experience of Board Evaluation Companies is [here](#).

Follow up

It is very important that there is full transparency both of the process and of the outcome. The results should be made fully available to UKGI at the same time as to the lead within the business. Subsequently, there may be a case for disclosure to the Minister. A Board review will also provide useful input into the appraisal process for the Chair and other Board members as appropriate.

Finally, there should be a clear programme of follow up actions. These are the responsibility of the Chair to address and can be monitored by UKGI.

****Please note that all links should be accessed through Internet Explorer as they are not currently supported by Google Chrome.***