UKGI00044280

UK Government Investments

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** **Updated August 2020**

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 a NED.
As shareholder, you may need to convince a sceptical audience of the need for and benefits of a Review and advise on how to go about it, including the need for transparency.
Further reading is in the links below and importantly in the *Portfolio Operating Principles and Guidance (UKGI POPs)*. **Please review these and send your experience, presentations etc. to Adam Moore or 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, whether advisory or fiduciary. It sets the 'tone' and is ultimately responsible for performance, strategy, values, and risk. It is the principal lever through which UKGI exercises much of its governance role.
Regular reviews of Board effectiveness are a Corporate Governance Code requirement and UKGI considers them essential to maintain quality and effectiveness – so we keep track of when our Assets 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 as per best practice, 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 POPs* requires at least annual internal reviews.
Process: **Typically based on a questionnaire distributed by the Board secretariat**
Options for lead: **Chair** - ultimately carries responsibility for Board effectiveness.
Alternatively, the **SID/Head of ARAC** is a good option as the Board 'conscience' should the Chair be unable
Main subjects covered include: Board meeting, NEDs' cohesiveness, 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.

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External Reviews
Timing: *UKGI POPs* 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*:* An external reviewer reporting to the Board via the Chair. Considerations are similar to an Internal review. There may be a case (by exception, such as where UKGI have concerns about the capability of the Chair) for UKGI to take a more direct role in the review or have a direct relationship with the reviewer. Nevertheless, the review is the Board's own process, and must be 'owned' by Board, even if carried out by an external specialist.

Choice of Board reviewers
There is a wide range in **Quality**, which UKGI considers crucial, and in **Price** (£12-60k). There has been a lot of discussion about the quality of Board reviewers and this is discussed in the FRC Guidance here and more recently there has been a consultation by ICSA, including an option requiring a minimum qualification.

In practice, choice may come down to size of perceived problem:

- High end sole practitioners – most effective but costly
- Head hunters – also costly but can be effective
- 'Big 4' – can be cheaper but can be less challenging
- Other sole practitioners – usually cheaper but quality variable.

A Schedule of *some UKGI experience of Board Evaluation Companies* is here.
Other names include, Condign Board Consulting, Better Boards (contact Dr. Sabine Dembkowski), Independent Board Evaluations, Nestor Advisors.

Virtual Board Effective reviews
We have been asked whether it is possible to do a virtual Board review. In practice the answer is probably 'yes'. In practice many of the elements of a review are usually done by telephone or questionnaire. Even Board observance should be possible, although perhaps more difficult to pick up the Board dynamic. A good subject for such a review could be to assess how well a Board is coping with virtual working (such as during the COVID-19 pandemic).

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. It can also be useful as a lever for reporting to Department son Board strength.

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.