



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 March 2023

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 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 both a requirement of the [UK Corporate Governance Code](#) as well as the [Cabinet Office's Sponsorship Code of Good Practice](#) for arm's-length bodies. 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?

A Board effectiveness review should evaluate the performance of the Board as a whole, it is not intended to review the performance of Board members on an individual basis, this should be carried out separately by the Chair annually. Among other areas the review should consider: does the Board have structure, processes, people and performance to deliver? How does it interact with the executive and stakeholders and are roles clear?

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: POPs requires annual internal reviews (except when there is an externally facilitated review)

Process: Typically based on a questionnaire set by the Chair and distributed by the Board secretariat

Lead: Chair (in exceptional circumstances the SID may lead the review 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](#)

Additionally, Boards may use an external organisation to manage the *internal* review. This can bring greater challenge and discipline into the process using expertise/tools of a third party. A good example of this approach can be found [here](#).

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External Reviews

Timing: POPs require an external review at least every three years.

Process: similar areas of focus to Internal reviews however with the added insights of an external party bringing independent challenge and external expertise. Typically these will involve the observation of a Board meeting (in person or virtual), documentation reviews, and interviews with Board members and key individuals reporting to/interacting with the Board. Emphasis varies with the reviewer and circumstances. 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 ([in exceptional circumstances](#), such as where UKGI have concerns about the capability of the Chair – this should be discussed with the UKGI Portfolio and Governance Team) 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 for reviewers. Typically Board reviewers are either sole practitioners (individuals with extensive experience of Boards) or specialist consultancy firms offering reviews as a service.

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

Other providers known to UKGI include: Condign Board Consulting, Better Boards, Independent Board Evaluations, Nestor Advisors, Socia, and Ffion Hague.

Follow up

It is very important that there is full transparency both of the process and of the outcome. Any review must produce a written report with recommendations to form a robust action plan with action owners. The results should be made fully available to UKGI when signed off by the Board. Subsequently, there may be a case for disclosure to the Minister in extremis, or an update provided as part of normal reporting from UKGI. 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 Departments on Board strength. UKGI should keep an eye on the follow-up from the Board review, focussing upon the delivery of the recommendations and action plan.