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The Importance of Evaluating the Board
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AS RECENTLY as the turn of the century, formal board evaluations were rare. While staff appraisals have long been commonplace throughout most large organisations, it seemed that directors were considered to be above such an apparently demeaning process.

Perhaps it was felt that if a group of successful people were brought together, they would – by definition – become a successful board, and no further review is needed.

Why have board evaluations
Simply placing competent people of goodwill around a boardroom table will not necessarily result in an effective functioning board. Issues of structure, processes and behaviour can detract from or add to board effectiveness.

A properly conducted board evaluation will help to flush these out by examining matters such as:

- Whether board meetings allow enough time for governance review, or whether governance tends to be squeezed out of the discussion by ongoing business issues
- Whether the information provided to the board by management is timely, appropriate, sufficient and in a format that will foster healthy review
- Whether the composition of the board is optimal in terms of its members' skills, knowledge and diversity of experience and outlook
- Whether discussions are open, frank and constructive, with all views considered, or are dominated by key players
- Whether board committees work efficiently
- Whether training would help to remedy any identified weaknesses

Enter the regulators and assessors

In the last decade and a half, there has been increasing focus from regulators on appraising the manner in which boards exercise their governance roles.

The US, UK, Australia and New Zealand have all introduced requirements for an annual assessment of the boards of larger companies, or at least an explanation in the absence of assessment.

In Singapore, the Code of Corporate Governance requires a formal assessment of the effectiveness of the board of directors as a whole, and its committees, and the contribution by each director to that effectiveness (Principle 5).

In addition, a write-up of the evaluation process should be provided in the annual report.
Beyond the regulators, independent third parties are now assessing the performance of boards.

Corporate governance scorecards such as the ASEAN Corporate Governance Scorecard and the Singapore Governance and Transparency Index score and rank listed companies on their corporate governance practices.

The Singapore Corporate Awards recognise companies with strong corporate governance performance.

It therefore behoves boards to assess themselves to both comply with the Code and also to improve their performance and effectiveness.

The board evaluation process

In the conduct of their board assessments, the majority of companies in Singapore use internally prepared questionnaires, open boardroom discussions, and the chairman's or nominating committee's evaluations of board effectiveness.

Not surprisingly, there is a range of views on what constitutes an effective board, and accordingly what criteria the evaluation should attempt to measure. The SID-SGX Board of Directors Survey 2015 shows that measures that rate the highest are: whether board discussions are constructive (77 per cent), attendance levels of directors (73 per cent), and whether the board makes a meaningful contribution to strategy (72 per cent).

Surprisingly, financial performance measures such as profit (25 per cent), total shareholder returns (22 per cent), return on investment ratios (18 per cent) and share price performance (10 per cent) do not rate as high, and in most cases were lower than in previous surveys.

Using an external facilitator

The survey also shows that most boards continue to rely on internal assessments. Only 26 per cent of responding companies engaged an external facilitator or consultant to help coordinate the process. An even smaller percentage used external support for assessment of board committees.

Regulators in some countries, including the UK, require that larger companies conduct an externally facilitated board assessment at least every three years. This points to the view that an independent facilitator can bring certain important benefits to the process.

An independent facilitator can eliminate the embarrassment or concern that directors might feel about speaking frankly or critically about colleagues.

As an honest broker of directors' inputs and sentiments, the facilitator can help to develop a constructive assessment that can provide the basis for enhanced board effectiveness.

The facilitator may also be able to bring a broader perspective to the task. If he or she has familiarity with a variety of boards, either as a director of other companies or as a facilitator of board evaluations, he or she will be able to offer comparisons and examples of effectiveness that may not have occurred to the board members themselves.

One of the bigger concerns about purely internal board reviews is that some boards will consider themselves to be optimal simply because they all get along and think alike. For many, lack of disagreement is seen as success. An external facilitator or consultant can challenge that complacency, and might recommend that a greater degree of diversity around the table could lead to stronger governance and performance.

Greater use of independent, external resources, if not every year, then at least periodically every few years, would make a significant difference to evaluating board effectiveness.

The writer is a member of the Governing Council of the Singapore Institute of Directors. This article first appeared in BTInvest,
http://www.btinvest.com.sg/specials/boardroom/evaluating-the-board/