



## The 2017 Non-Executive Directors' Association Debate

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The formal debate held at Smith & Williamson's London office in Moorgate questioned whether: *board performance evaluation lacks real purpose and conviction with directors too often ending up patting themselves on the back rather than putting the boardroom under the microscope.*

The Debate motion was:

**" This house believes that board performance evaluation is failing to improve effectiveness in the boardroom "**

### Creating the Boardroom dynamic

In adopting the debate format to explore this very topical issue it was recognising there may be a close parallel between a debate and a boardroom. In each situation, there must be respect for the opposing view, but also an atmosphere of constructive challenge after careful listening.

### *The Chairman*

**Barry Gamble**, an experienced Chairman of debates and of companies

### *The Debaters*

Proposing the motion:

- **Sharon Constancon**, CEO, Governance specialists, Genius Methods; **seconded by**
- **Guy Wilson**, Independent NED Fresnillo plc

Opposing the motion:

- **Barbara Moorhouse**, NED, Balfour Beatty plc, Microgen plc and Idox plc; **seconded by**
  - **Ian Davies**, NED, Harvey Nash plc and BMT Group. Visiting fellow Cranfield University
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## Board Performance background

The 2017 NED Debate sought to consider the state of play of boardroom performance activity seeking a perspective on how the evaluation process is working. Boards of directors and individual directors at all levels of corporate activity are increasingly in the spotlight in terms of how they operate and how they perform. Shareholders, as well as broader stakeholder groups, have expectations that may exceed those of the board itself. Board performance evaluation is a discipline that a broad range of companies are adopting however, the basis and standard of the evaluation process itself often lacks rigour and direction.

The UK Government released its response to the Green Paper consultation on **Corporate Governance Reform** in August 2017 and under the heading: **'Skills and competence of directors'** it said: *"The importance of board effectiveness reviews required under the UK Corporate Governance Code was stressed"* ... with further emphasis on encouraging boardroom diversity and greater attention to stakeholder expectations, which includes how boards operate and hence are assessed. As part of the focus on the board's 'Continuing Professional Development', which should be part of the board performance appraisal, there were also calls for more to be done to ensure that non-executive directors, in particular, are properly trained and have an appropriate awareness of their duties.

Some of the key themes that the Debate set out to cover included:

- Is the scope and depth of evaluations set at the right level?
- How good is the external facilitation process?
- Are the tools and techniques used effective?
- What actually comes out of the process – is it of value?

## The Indicative Vote

Before the Debate started Barry Gamble, the Chairman, called for a straw poll of the Motion and a summary of the result is set out below:

The Indicative Vote	
For the Motion:	64%
Against the Motion:	36%
Abstained:	Nil

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## Proposers of the Motion (*Sharon and Guy*)

- Directors have become complacent and the minimum seems to be enough
- Outside input is not enjoyed, especially in the “cosy world” of the boardroom
- The easy route is often acceptable that tends to be a “tick box approach”
- Governance requirements are not the issue and the boardroom should be accessible

There appear to be four key challenges that contribute to the lack of Board Evaluation effectiveness:

### 1. **Maturity**

- i. All directors can improve (like sports – boards need to be more team-focused)
- ii. As a director, where else is there to go?

### 2. **Chairman**

- i. Is the role just acting as the conductor holding the baton – bringing the board to order?
- ii. A good chairman needs to be coach, mentor, challenger
- iii. It can be a lonely place and is often a role that is not well performed due to no/little basic training

### 3. **Governance champion** (*HR Dir, Co. Sec, deputy chairman*)

- i. The champion should be competent, knowledgeable, empowered and respected
- ii. The output from the evaluation is typically part of a governance plan

### 4. **Evaluator**

- i. Many can be conflicted and do not provide an effective review
- ii. The key is the chemistry, style, process, sector knowledge, honesty and flexibility
- iii. Mutual respect is fundamental to the process, but it is not always there
- iv. Feedback must be safe, practical and unattributed, complemented with common sense

Negative issues have driven the need – corporate scandals and profit warnings, typically the methodology tends to take over (policies, practices and procedures), but Board Evaluation does not really get into the DNA of a company (i.e. its sustainability and ability to grow and improve)

## Summary

- Unconscious bias is resulting in the failure seen in board effectiveness
- 1 on 1 conversations are often different to people’s behaviour in the boardroom
- Greater maturity is needed to ensure evaluations are carried out effectively



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## Opposers of the Motion (*Barbara and Ian*)

Board Evaluation is a great tool, in particular:

- There are few other techniques available
- As board scope continues to expand Board Evaluation becomes even more important
- Need more and better-quality evaluations - not less!

Many directors have doubts about the effectiveness of boards and the competence of colleagues

### *The top five failings appear to be:*

1. Groupthink (middle class dinner-party vibe - corporate equivalent of avoiding politics and religion)
2. Interpersonal tensions and mistrust (including the Emotional vs Cognitive Intelligence balance)
3. Weak information flows
4. Poor board management
5. Board lacking external awareness, locked in its own bubble believing its own PR

How does Board Evaluation address these areas?

- Benefit from an external perspective
- De-personalise the process
- Input can be anonymous if the real story is told
- It can provide a road map to improvement
- The approach can be self-directed with regular reviews

The Evaluation needs to be efficient, rigorous and constructive. There is currently a lack of credible alternatives and the Stewardship Code does not of itself provide a silver bullet. Typically, there is also:

- customer and employee pressure – no reliable way of translating that into sustained board performance improvement;
- political and media attention – rightly raises debate, but largely counter-productive, inaccurate and generates a huge realm of public hostility; and
- the regulatory perspective is driven by the FRC – they decide the onus is on boards themselves.

In the past there was no need for Board Evaluation because classic economic theory applied... good performance = good board = high shareholder returns which had a charming simplicity. Not so now!



**Barry Gamble,**  
*The Debate Chairman*

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## Some key points from the Floor

- A 360-degree feedback is essential to get a well-rounded view
- It comes down in the end to accountability and much depends on the chairman, board and the SID
- The process must be honest, open and transparent and the output value-added – some directors still do not take it seriously
- Action plans must be 'actionable' and need to be followed through
- Boards need to explore alternatives where appropriate and different options are available – the assessment process used needs to be robust, independent and professional
- Anyone can set up a company to provide Board Evaluation - it is unregulated which leads to the exercise potentially leading to flawed outputs – tendering for work can also be a lottery with the variety of providers in the market
- Good to get the perspective and views from groups such as activist investors who monitor closely company performance
- Directors and boards rarely set formal, annual objectives – so how can you measure performance?
- As promoted by the UK Corporate Governance Code poor performers must be moved on



## Conclusions

### Proposers

- ✓ It is not about whether or not you have Board Evaluation – it is a must have for all Boards, but is not working in its current form
- ✓ It should be about better implementation of the process
- ✓ Need clarity on the practical advice and recommendations
- ✓ Boards are too risk averse and are not keen to open their doors to be transparent – they like to be shrouded in mystery
- ✓ Quite often the egos in the boardroom are too scared to listen to the messages
- ✓ Much still depends on the leadership and direction of the Chairman as they should lead the process and lead by example

### Opposers

- ✗ We are on a journey with the Evaluation approach – governance is actually working – less evidence of being able to just put your mates on the Board
- ✗ A good evaluation is about people + clear objectives + applying best practice + feedback – it also has a snowball effect as the people involved become the evaluators of the future
- ✗ At the end of the day it is a tool – some use it well whilst some use it badly, but Boards should know what they want to achieve and should want to know how they can improve
- ✗ It will not remove corporate scandals, but Boards will be on notice to be on top of their game
- ✗ On balance Board Performance is doing its job – it is helping to improve 'Board Effectiveness'

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## The Final Vote

After the Debate Barry Gamble, the Chairman, called for a new poll of the Motion and a summary of the result, including the initial Indicative Vote, is set out below. **The vote swung from supporting the Motion to opposing the Motion with a 21% shift from 'For the Motion' to 'Against the Motion'.**

The Indicative Vote		Final Vote	
For the Motion:	64%	For the Motion:	43%
Against the Motion:	36%	Against the Motion:	52%
Abstained:	Nil	Abstained:	5%



Guy Wilson, Sharon Constancon, Barry Gamble, Barbara Moorhouse, Ian Davies



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