

Article by Dr Chris Pierce:

Board Evaluation – An Evaluators perspective

In recent years, the GCC Regulators have focused upon improving governance standards within the business community by, inter alia, encouraging board evaluations to be conducted. For example, the 2017 Corporate Governance Regulations published by the Capital Market Authority in the Kingdom of Saudi Arabia state:

“The board shall develop based on the proposal of the nomination committee the necessary mechanisms to annually assess the performance of the board, its members and committees and the executive management using key performance indicators. The procedures of the performance assessment shall be in writing and clearly stated. The board shall carry out the necessary arrangements to obtain an assessment of its performance from a competent third party every 3 years.”

It is generally agreed by policy makers, board members and evaluators that the purpose of regular board evaluations is to help the board of directors continuously to improve both its own performance and the performance of the company. It is also generally recognised that engaging an independent evaluator can bring greater objectivity and fresh insights to the process, as well as providing some reassurance to the company's shareholders and other stakeholders that the company takes its responsibility for continuous improvement seriously.

Most evaluators would argue that that the purpose of a board evaluation is to be a part of a board self- improvement process. The role of the evaluator is to identify any issues that the board should consider and the role of the board is to take the appropriate actions to address these issues. It is intended that the evaluation would lead to the board working in a smarter and more efficient manner. By conducting a board evaluation, the board can provide some reassurance to shareholders and others that the board is taking its responsibilities seriously and is endeavouring to carry them out to the best of its abilities.

At an international level, many evaluators are increasingly using the term 'board performance review' rather than 'board evaluation'. In the UK, the Chartered Governance Institute (formerly the Institute of Chartered Secretaries and Administrators) published a report to the UK Government in January 2021 requesting that all board evaluations be renamed in regulator publications as 'board performance reviews'.

Independent board evaluations should NOT be seen as an assurance function. If assurance were to be the key purpose of the board evaluation it might lead to the board evaluation activity becoming a backwards-looking compliance exercise that generated little value. It might also reduce the board's willingness to be open in their communications with the evaluator and might raise unrealistic expectations as to the ability of the evaluation or the evaluator to prevent future failings. It is not the job of an external evaluator to provide guarantees or assurance as to the board's future

effectiveness. Engaging an independent evaluator should not transfer the board's responsibility to take action to improve its own performance.

Typical areas of benefits arising from board evaluations include improvements in:

- the coverage of board and committee tasks identified in the board and committee charters or mandates;
- the clarity of the decision-making processes and authorities;
- the quality of information provided to the board members on the company and its performance;
- the quality of discussions around individual agenda items and the time allowed ensuring that sufficient debate is taking place for major decisions or contentious issues;
- the effectiveness of the board committees, and how they are connected and aligned with the main board;
- the effectiveness of the board secretary;
- the processes for the board to contribute to strategy formulation and identifying, aligning and reviewing enterprise risks; and
- how the board communicates with, and listens and responds to, shareholders and other key stakeholders.

In my experience, the most effective evaluations involve questionnaires or surveys involving all of the board members and the senior management and focus upon the dynamics in the boardroom. However, in this region I have found that one to one interviews provide much richer insights into the board dynamics than surveys do. Board members definitely prefer to meet with the evaluator in person to discuss their views of the board.

In my opinion, board evaluations are most valuable if there is a focus upon:

- the quality of board leadership;
- how the board works together as a team and the effectiveness of individual directors;
- the tone set by the chair and the chief executive;
- the clarity of the director's role;
- the mix of skills, experience and knowledge of the board members being aligned within the context of the company purpose, company values, developing and delivering the strategy and the principal risks facing the company;
- identification of succession and talent development plans;
- Board interactions that are constructive, meaningful and forward-looking;
- Regular reviews of progress against agreed outcomes;

In the GCC BDI 2019 Board Effectiveness Review only 13% of respondents stated that their board's performance and effectiveness was evaluated using an external evaluator. I am hoping that when the next survey takes place the percentage will have significantly increased and that all of the directors that have personally experienced an independent evaluation will have identified material benefits from the activity!

Professor Chris Pierce, PhD, is a Senior External Associate of GCC BDI and has undertaken many board evaluations for the Institute.

About GCC BDI's board evaluation service

GCC BDI has extensive experience in delivering top quality board evaluations for organisations across the GCC and we have developed a proprietary tool in association with McKinsey & Company to assist in the process. Our board evaluations are based on our eight dimensions of board effectiveness, each representing a critical component that define an effective board.

GCC BDI draws on the expertise and knowledge of a large pool of top local, regional and international evaluators (including from our partners McKinsey & Company, PwC, Allen & Overy and Heidrick & Struggles where appropriate), matching their areas of expertise to our clients' needs. In this way, we provide a mix of best international practice and actual board experience, combined with our specialist knowledge and experience of corporate governance and director issues in the Gulf.

For those organisations who are new to board evaluations, we can also offer a phased process over a three-year period to get a board prepared for a full evaluation in the third year.