

# Board effectiveness

## What is it and why is it important?

### What do we mean when we talk about Board effectiveness?

The FRC (Financial Reporting Council) says:

“An effective board defines the company’s purpose and then sets a strategy to deliver it, underpinned by the values and behaviours that shape its culture and the way it conducts its business.”

The Charity Governance Code comprises a number of principles of which Board effectiveness is number 5:

“The board works as an effective team, using the appropriate balance of skills, experience, backgrounds and knowledge to make informed decisions.”

And the Pensions Regulator has this to say:

“You should review the performance and effectiveness of the board annually and refer to the objectives in your business plan.”

### So it seems that there is widespread agreement that Board effectiveness is important, but how do you go about assessing and improving it?

Board effectiveness in its broadest sense can be addressed from two key perspectives.

The first is the **structural** perspective, which is policies and procedures led. This typically involves considering such issues as:

- How is the Board structured in terms of its composition, its use of any sub-committees, its meeting frequency and timings, its typical agenda format?
- What processes are in place and how effective are they? This might encompass, for example, agenda input, meeting management, business planning, risk management, adviser and supplier management, training, etc.

The second perspective is **behavioural**, which is interactions and relationships led, and explores issues such as:

- How do the Trustee directors interact with their stakeholders? What is the quality of the relationship between the Board and its key stakeholders such as the members, the pensions manager, and its advisers and suppliers?
- How do the Trustee directors interact with each other? Do they pull together as a team? What level of commitment is there and what roles do the individual directors play, not just in terms of any formal roles (Chair, etc.) but informally in contributing to the Board’s effectiveness as a team, e.g. in terms of challenging, deep thinking, innovation, pragmatism, consensus-building.



Historically, Board effectiveness reviews have often placed most emphasis on the structural perspective. Whilst this lends itself to rigour and can lead to undoubted benefits in improving structure and process, it risks ignoring a fundamental element of effectiveness – how the Board members actually work together in practice.

There are many examples of boards that are well-structured, methodical and have excellent policies and procedures in place – and yet do not operate effectively because the board members don't work well together. Conversely, there are boards that on paper should be dysfunctional – with little or no formalised structure or process and often with poor resource to support them. Yet they produce excellent results, due in no small part to a willingness to pull together in pursuit of a common goal.

The best teams are those where everyone's voice is heard and contribution valued, and where people are playing to their strengths.

So what does a board effectiveness review that focuses on the behavioural aspects comprise? There are many possible elements, but there are five key steps that are likely to be followed.

## 1. Scoping session

The first step is always to agree objectives for the review. This is where the Board, usually represented by the Chair, can identify any areas of concern or particular issues to be explored, and desired outcomes can be agreed.

## 2. Desktop analysis

Even when the focus of a review is on the behavioural aspects, the starting point is almost always a desktop analysis of the supporting documentation, including recent meeting packs. This gives the reviewers context for the subsequent stages of the review, and enables them to spot any operational aspects that might be sub-optimal, and which should be explored in greater detail to assess their impact on the Board's ability to work effectively.

## 3. One-to-one interviews

Desktop review complete, the next stage is one-to-one interviews with each of the trustee directors to explore their role.

These interviews typically have a number of aims:

- to draw out from each director those areas where they feel things are going well at both individual and Board level
- to identify where improvements could be made
- to explore where the director is confident in their ability to contribute and where they feel their skills could be used differently

It is also useful to have discussions with other key stakeholders, such as suppliers, advisers, and in-house staff, to gain a third-party perspective on the Board.

## 4. Board observation

Most reviews also encompass observation of a Board meeting, to see how the meeting is conducted and observe the interactions between Board members in practice. Where there are sub-committees of the Board, observations of those help to identify how information and recommendations are transmitted between the groups, and how decisions are made.

## 5. Feedback

Finally, the reviewers will analyse all the inputs, identify key themes and reflect on any areas to which they have been asked to give particular consideration. They will then typically produce an initial report for discussion with the Chair and /or any other individuals commissioning the review.

The report is then finalised and submitted to the Board, often accompanied by a presentation and discussion of the key points emerging, and ideally with agreement on any actions required to help the Board increase its effectiveness going forward.

