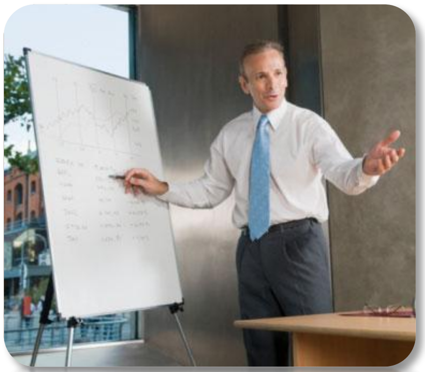
The Board Evaluation Process
a case study



The Specific situation

A Board Evaluation and Governance Review was undertaken for a major internationally listed conglomerate (confidentiality requested). The company was established in 1978 and floated in 2005 with a market capitalisation in the region of £950 million

- The founder, who has maintained a hands on role, and family have retained 62% of the shares.
- Fellow directors and employees hold 10% of shares.
- The balance of 28% of the shares are listed on the stock market.
- The Board Evaluation and Governance Review were conducted simultaneously.
- The nature of the regulated industry had embedded high standards of governance in the organisation. The Board was reasonably balanced and directors communicated well.
- Controls were robust and the Board was compliant with key UK governance standards.

Need for Board Evaluation

- Being family owned and run since inception, external input was needed to refresh thinking
- Ownership is skewed
- No governance regulatory demand in listing jurisdiction
- All companies benefit from an objective view of governance practices

Adding value

"Board Evaluation is an important annual exercise that adds considerable value to all organisations, regardless of size.

It is neither process-heavy nor hugely time-consuming.

Whether or not a company is affected by the Walker Review or the UK Corporate Governance Code, there is merit in spending time in preparation for a Board Evaluation and securing the benefits that flow from it".

Neville Bain

Chairman of the Institute of Directors

For further information please contact Sharon Constançon
Email: sconstancon@geniusmethods.com Telephone : 01494 565 947
www.geniusmethods.com

Process followed

The Board members completed a questionnaire which covered various governance, structure, communication, behaviour, leadership, risk, succession planning, management development and committee specific issues.

All directors answered each question and were encouraged to provide comments to whichever questions they chose. The last section was purely for director written contribution.

From this information further structured discussions occurred with key individuals on the Board, senior non-Board executives, internal and external audit. This ensured a rounded view given the imbalance of stakeholders.

A report was compiled which was discussed by the directors and a schedule of improvements was defined.

Results

Against the backdrop of a highly successful and profitable company, well run and widely respected, an objective, external assessment was able to make a valid contribution to adding further dimensions to management excellence.

The following areas were identified for improvement. These were all implemented over the following six month period. The implementation was monitored and reported on at each Board meeting in the intervening period.

Further improvements were also noted that are in the process of being implemented.

All recommendations were accepted by the Board. Board dynamics improved as a result of the evaluation. The Board away day significantly improved Board cohesion and team spirit.

"The ABI's leading role in corporate governance stems from our members' belief that well-governed companies will produce better returns for shareholders over time. This piece of research, using data generated by our own Institutional Voting Information Service (IVIS), does show a clear connection between good governance, company performance and investor return. One important conclusion, not highlighted in other research, is that good governance reduces volatility of returns. Moreover, good governance is also a precursor to good performance rather than vice versa".

Stephen Haddrill

Director General,

Association of British Insurers

The new UK Corporate Governance Code requires that all premium FTSE 350 listed companies to have an external Board Evaluation at least every third year. Under the "comply or explain" principle, they will have to "explain" if they do not.

This standard is Best Practice for all other listed and non-listed companies

The Walker Review for Banks and Financial Institutions which lead to the new UK Code, identifies good business principles that add real value and thus provide guidance to Boards in effectively conducting its affairs and leading the business.

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Findings and actions taken

- One of the three subsidiary companies needed an additional director to provide a better balance of skills.
  This director was identified and appointed.
- Directors did not have clear terms of office.
  This has now been corrected.
- Independent directors did not have an annual review with the Chairman.
  The process has now been put in place and voted to be mutually beneficial
- The strategy process was relatively informal in that each Board agenda had items of significant strategic importance but there was no full strategy overview.
  The company has now put in place a full strategy process with a full Board day off-site to address strategy; the independent directors contribute at stages in the process and the final strategy is more a reflection of the full Board.
- Management development and succession planning needed to be considered given the family ownership and high shareholding.
  This is being addressed and is now more thorough and has been elevated to the status of an important annual Board agenda item
- The agenda structure and time allocation to strategic issues needed to be addressed to ensure adequate time was given to these important matters.
  The agenda has been re-shaped so that the important and strategic items are first on the agenda and the routine items relegated to the end. Time allocation has materially improved.

Further recommendations for improvement

- The coherence of the strategy process and an external analysis of the operating environment. This was missing and therefore a risk that was not adequately addressed
- Process of appointing independent directors needed to be formalized. This would help clarify succession issues
- Director annual appraisals
- Timely information flow for Board packs and information flow to the Board

Valuable Insights

"I was initially reluctant to conduct this on two counts.

First, I was afraid this was just another box-ticking time wasting process.

Second, as the person that built this business from infancy to the current time, I felt that I knew how to run the Board.

I was wrong.

The exercise has been very helpful, conducted by an excellent consultant with really valuable insights.

I have fully endorsed the action plan and this will be a regular annual exercise in our company".

Chairman and Company Founder

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