.

Company boards are more alike than different in operation

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07 May 2015, David Archer & Alex Cameron, Socia, Financial Director

WHY would you do a formal external evaluation of your board if you didn't have to? It sounds a bit like a school asking if they can please have an Ofsted inspection - the stuff of bad jokes and head teachers' nightmares. But increasingly we are seeing boards looking at the value of doing regular board evaluations and using the UK Corporate Governance Code as the yardstick for that work.

Of course in the world of listed FTSE listed companies it's been clear requirement since 2010 to have an external evaluation against the code at least once every three years - and companies with a reporting date after 1 October 2014 now have to use the last year's updated version of the code with its greater emphasis on the management of long term risks and the sustainability of the organisation.

This might sound rater onerous but the process of external evaluation has gradually been accepted and now valued by plc boards and their stakeholders. It provides a degree of assurance about the working of a board and also a point of comparison on how seriously a board takes its own evaluation and performance improvement - and by extension how this effects the culture of the organisation it is governing.

There are plenty of boards outside the FTSE 350 who exploring the value of using the FRC Code, and that's not to mention charities, mutual and public sector organisations. But does the diversity of culture and core business of these organisations really mean that **one code can guide them all**? Well the mission of a major charity may be very different from a privately financed business but when it comes to what makes their boards effective, what keeps their Chairman awake at night, and how these anxieties can be handled, Boards are really not so different.

Boards have more similarities than differences in their operation

To explore Board evaluation and improvement across sectors we recently **conducted a survey of over 100 board members**. We wanted to see if there were as many differences within a sector as between sectors. The headlines were pretty clear. While boards may run very different types of organisation when it comes to their own operation: the setting of priorities, the way they make decisions, getting access to the right skills, and critically how they view their own performance improvement, there were far more similarities than differences.

Some differences in priorities were apparent. For example our survey showed that public sector boards are much less focused on risk management and making investment decisions compared with private sector oards. And charity boards put making key Executive appointments as a higher priority than other sectors.

A high proportion of boards across all sectors are conducting some form of evaluation, but outside plcs, the majority of these are internal exercises. However the good practice encouraged by adherence to the FRC Code is spreading and a number of other boards are looking for evaluation frameworks to help guide their assessment and development plans. New codes of practice for these boards are being developed in the charity and public sector.

In many cases these new codes are being created in response to a fear that the FRC Code is ‘not applicable for our business'. But these new codes, which are designed to meet the perceived needs of a specific situation, may miss the point of a generally applicable code. By developing a framework to suit a particular sector or type of organisation there is a risk of common blind spots in a sector being emphasised, focusing too much on the content of the decisions expected of the board and too little on how the board makes the best decisions possible to meet its accountabilities. In addition these new codes may not have the on-going commitment and resourcing (currently provided by the FRC) that will ensure that they are kept up to date with rapidly changing stakeholder expectations.

Build on experience and transfer the lessons

CFOs and other finance professionals are in high demand to serve as NEDs or trustees on boards in many different sectors. And the experience they gain is often as valuable for their own career development as is the experience they bring to good governance of the board.

By encouraging the use of a common framework for board evaluation - based on the FRC code - NEDs and executives can develop a common language to discuss the strengths, weaknesses and areas of risk for any board. It would also encourage greater transparency of board performance and a greater understanding or what makes all boards effective amongst stakeholders and in the media. Using one code as a guide will enable finance directors to reflect on common lessons and to more quickly transfer ideas to improve effectiveness from a board in one sector to another. And with large parts of public expenditure increasingly being governed by bodies independent of government, each overseen by their own board structure, that has got to be good for us all.

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