Feature

One evaluation framework for all boards?

Alex Cameron and **David Archer** look at whether other types of organisations can learn lessons from the best practice of corporate boards.

It's a truism that the people who would most benefit from feedback are the ones who are least likely to ask for it, and what is true of individuals can sometimes also be true for the boards of organisations. Of course all boards have the potential to improve their performance buts it's often the ones who are well down a development path who seek out rigorous feedback as a tool to help them.

In the world of PLC boards this issue has been tackled by the FRC mandating all listed companies to go through an externally managed process of evaluation at least every three years – and then to report the resulting action plan to shareholders. The aim of the FRC was to encourage all listed companies to do what the more enlightened ones were doing already – to seek out objective feedback on the board's performance and to be transparent about the outcomes. And this process has been welcomed by stakeholders as it gives a degree of assurance about how the board works and therefore the risks it is managing. It also provides a point of comparison on how seriously a board takes its own evaluation and performance improvement – and by extension how this affects the culture of the organisation it is governing.

But if mandatory external board evaluation is such a good thing in PLCs might not the same be true in other sectors? In recent years we have seen an enormous growth in the number of board-led public sector organisations. In the health sector there are now over 140 Foundation Trust hospitals with a total annual income of some £41bn and in education, social services and criminal justice there are similar moves to give more autonomy in the delivery of public services to independent organisations headed by a board. In a parallel move, consolidation in the charitable sector has led to the creation of some very large organisations, delivering significant national (and indeed global services) run by boards of trustees who face many of the same challenges and concerns as directors of a PLC. And so if the unitary board model is seen to be the best way to govern these new organisations – might the FRC Code be a good place to start when looking for a consistent and transparent way of improving board performance across all sectors.

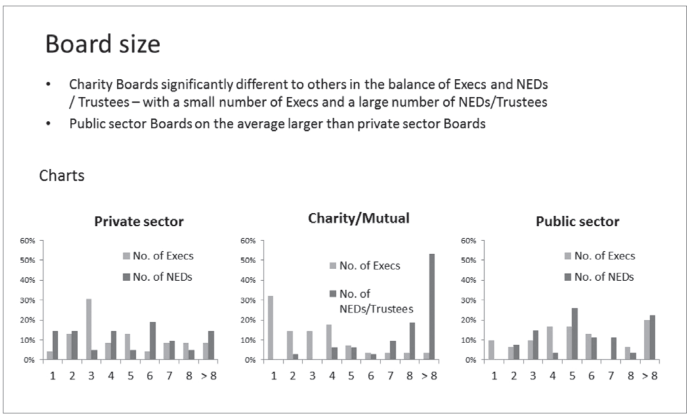
A survey of board members from different sectors

To explore the differences and similarities between sectors when it comes to board improvement we recently conducted a survey of over 100 board members and then brought invited guests together to discuss the results. We wanted to see if there were as many differences within a sector as between sectors, were the differences more of style than substance, and were there improvement lessons that could be transferred from one sector to another? The headlines were pretty clear, whilst boards in the charity and public sector will have a different mission to a PLC board 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.

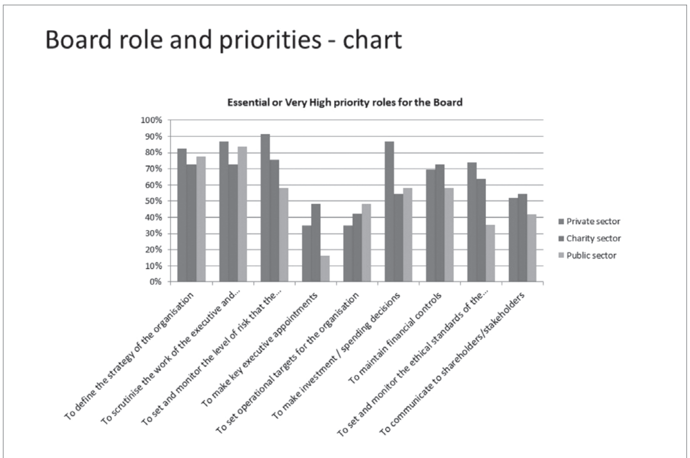
For example respondents from all three sectors rated strategy development and scrutiny of the work of the executive as the highest priority responsibilities for a board. And all three sectors recognised the need to evaluate and develop board performance. But even more notable is that all boards highlight the dynamics of board operation as essential to improve their performance; whether that is about increasing diversity in private sector boards, building a better rapport with executives in charity boards or encouraging constructive challenge in public sector boards. But only a minority of charity and public sector boards have appointed a senior independent director or equivalent to be responsible for reviewing/improving performance of the chairman and the board.

Boards can appear quite different …

The first and most obvious difference is one of size and composition. In our survey 72 per cent of respondents from charity and mutual boards reported that they had eight or more NEDs/trustees, whereas our private sector respondents reported an average board size of five NEDs and a similar number of executive members. The public sector responses on board size were much more widespread, possibly because of the diverse nature of organisation types that these public sector boards oversee.



These boards are different in other ways too, for example, our survey showed that public sector boards are much less focused on risk management and making investment decisions compared with private sector boards. And charity boards put making key executive appointments as a higher priority than other sectors.



But when it comes to performance improvement their needs are the same …

The survey we conducted (see http://www.socia.co.uk/services/boardevaluation/Improving-board-Performance-Survey.aspx for more of the results) shows that a high proportion of boards across all sectors are conducting some form of evaluation, but outside the private sector where an external evaluation is mandated, 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 – such as the 'Code of good governance' published by the NVCO[1] and Monitor's framework for Foundation Trust governance reviews[2].

In many cases these new codes are being created in response to a fear that the FRC Code is designed to fit a 'for profit' governance regime and so cannot possibly be relevant to the demands of these 'not-for-profit' boards. 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.

The categories within the FRC Code: Leadership, Effectiveness, Accountability, Remuneration, and Relations with shareholders (stakeholders), are widely applicable. And the 'comply or explain' approach adopted by the Code allows all boards to address the issues that are unique to their own circumstances. By defining broad principles of operations and then supporting these with specific provisions this approach allows boards outside the private sector to explain how they satisfy the principles of good operation in ways that meet the specific needs of their own stakeholders. In our view the provisions of the Code are worded in a way that does make them useful to a wide range of organisations, encouraging them to pay attention to the critical areas that affect overall board performance.

Benefits of using one standard evaluation framework

Our experience evaluating boards across many sectors suggests that one approach to performance evaluation can work for all boards. In fact we are increasingly seeing boards from many sectors now requesting the use of the FRC Code as the touchstone of best practice. This is not surprising as many NEDs on private sector boards also sit on charity and public sector boards too, so they are already familiar with the requirements of the Code and can see its value.

Perhaps boards in other sectors need to read the Code – note the benefits of the 'comply or explain' approach and put their mind to rest that it doesn't comment on or assess the way an organisation achieves it's purpose – that is often the role of the appropriate regulator for that sector. These prejudices about the Code can get in the way of seeing its inherent benefits. One framework used across all sectors could encourage learning across sectors through the movement of NEDs. It could also encourage greater understanding or what makes all boards effective and, most important, greater transparency of board performance. And this might help tackle the real problem – encouraging greater scrutiny of boards that don't embark on any evaluation of their performance at all.

[1] See https://www.ncvo.org.uk/practical-support/index.php?option=com_redshop&view=product&pid=40&cid=15

[2] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/312988/well_led_framework_governance_reviews_1_.pdf

Alex Cameron and David Archer are directors at Socia, a consultancy which provides mentoring, advice and coaching for leaders and boards across the public and private sectors. www.socia.co.uk info@socia.co.uk 0870 787 6202