

# Board evaluation

## Important or not?

**Given increasing legal, market and societal pressures on directors, the view of boards as ceremonial bodies is becoming increasingly difficult to sustain. Compliance pressures on boards are well documented and tend to dominate governance discussion. There is a simultaneous trend to increasingly hold boards accountable for corporate failures and the poor performance of the companies they govern. It seems that every week the business press exposes another board failure.**

Performance pressures have arisen for a number of reasons. First, as boards are held increasingly accountable for corporate performance, they become increasingly more involved in the leadership of the companies they govern. Second, there has been a dramatic rise in shareholder activism over the past two decades. The main reason for this increased activism is the increase in power of large institutional investors, who are becoming far more demanding of boards due to limited investment opportunities. In addition to leadership responsibilities and shareholder activism, there is an increasing media and community scrutiny of all aspects of corporate life.

## Changing attitude

The pressures on boards to drive corporate performance mean that performance measurement and management are integral to a board's success. Performance measurement drives organisational learning and growth, and performance measures that

use appropriate indicators ensure that the operations of an organisation are aligned with its strategy. As a result, performance measurement systems have become increasingly sophisticated and popular at all levels of organisations. While boards and investors alike have been slow to accept the need for boards to evaluate their contribution to organisational performance, the current focus on governance reform is changing attitudes in this regard.

## Advantages of board evaluations

Board evaluations, if conducted properly, can contribute significantly to performance improvements on three levels – the organisational, board and individual director level. Boards who commit to a regular evaluation process find benefits across these levels in terms of improved leadership, greater clarity of roles and responsibilities, improved teamwork, greater accountability, better decision making, improved communication and more efficient board operations.

One of the key benefits of a board evaluation is that it can strengthen the board's leadership role. Another advantage of evaluation is that it improves role clarity. Teamwork is another important area where evaluation can contribute to performance improvement. Accountability and improvements in the board's decision-making process can also result from performance evaluation. Finally, effective board operations are necessary to ensure that the board has in place an appropriate top-level policy framework to guide the organisation.



## Evaluation planning

To enable boards to obtain actual value from board evaluations, it is important to identify areas of concern, to form part of the evaluation process. It is further important to consider previous evaluation outcomes to measure the success in respect of gap closures. It is also important to include the process of gap closure as part of the board's annual governance plan, with formal feedback sessions on the progress as a standing agenda item during board meetings.

## Environment, Social and Governance

Investors, shareholders, and analysts consider the Environmental, Social and Governance (ESG) aspects of a company, together with the financial aspects when evaluating companies as part of their investment mandates. Whether a company believes in and adopts an ESG framework or not, ESG is ingrained in every company and critical for all businesses. ESG facilitates

top-line growth in the long run, attracts talent, reduces costs, and forge a sense of trust amongst consumers and other stakeholders. It is important for boards to have a view of the company's current ESG position, with a focus on the practical application thereof within the company, which is advisable to include as part of the board evaluation process.

## The time is now

Plan your board evaluation properly and in advance, to ensure unlocking the value of a board evaluation process. View the full picture and include ESG as part of your next evaluation process.

## “Board evaluation: What the Board and Company Secretary need to know”

Our previous article in this series can be accessed here: <https://bit.ly/GT-BW-BoardEvaluation>

## Key contacts

Find out how Grant Thornton can help you to ensure that your organisation has effective corporate governance measures in place.



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