MEASURING THE SUCCESS OF THE BOARD

How do you measure your board’s performance? Sir Andrew Likierman describes the 10 key qualities every board needs for success, and explains how to measure them

By Sir Andrew Likierman

How would you rate your own board of executive and non-executive directors? High, because the organisation is doing well? Low, because you can’t fathom how such a bunch (other than you) could have been appointed? At 6 out of 10, because it’s a complicated judgement? None of the above bears close examination.

So, in common with many bodies who find it difficult to measure performance, boards may be tempted to fall back on the measurable. But numbers – whether showing activity (number of meetings) or even outcomes (company profitability) – can’t possibly capture the essence of how a board functions. This is why it’s false, indeed dangerous, for board members to assume that the organisation’s success reflects the success of the board.

Today’s success may well originate from decisions taken years ago by a previous board, or from other factors that have little to do with the current board’s efforts. For the same reason, currently unsuccessful companies can have successful boards – in that they are keeping those companies going while competitors are going bust, and laying down the basis for future success.

Nor is the performance of individual members the same as performance of the board as a whole. There may be excellent individuals in a dysfunctional team. Conversely, a great team could be far more than the sum of its parts, with the chairman playing a key role in making it happen.

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* the crucial factor

This article sets out how to measure board success. Really discussing how fully your board demonstrates the 10 abilities set out in the box (see Box 1) will provide the basis for an assessment, rather than just adding up numbers or ticking boxes. The list of abilities relates to UK listed companies, but the principles are just as applicable to unlisted companies seeking long-term shareholder value. Most also
apply (though in different institutional contexts) to non-UK companies and to public sector organisations.

The formal requirements

The combined code, which gives corporate governance requirements for listed companies, is clear: “Every company should be headed by an effective board, which is collectively responsible for the success of the company.” And paragraph A6 of the code specifies that “the board should undertake a formal and rigorous annual evaluation of its own performance and that of its committees and individual directors.”

There is certainly evidence that such evaluation is happening. But the main focus of paragraph A6 is on individuals, not the board as a whole. Also, ‘performance’ is a less ambitious goal than ‘success’ – a board could be effective if it simply kept to the rules.

Doing the right thing in corporate governance terms is an important, but not a sufficient, condition of success. And doing the wrong thing (eg an ineffective audit committee, or lack of independence among the non-executives) will make it more difficult to succeed but is not a measure of success (or lack of it).

Anyway, being successful means being more than just effective. It means making a significant contribution to the long term interests of the shareholders by adding value in excess of competitors.

The starting point

The starting point for measuring board effectiveness is to consider how it rates on the first three measures, ie:

1. Does the board have the ability to choose members with the right balance of qualities and skills, particularly the right chief executive officer (CEO)?
2. Is it agreed about priorities in its role?
3. Is it agreed about how to achieve the company’s strategy?

Board membership needs will evolve constantly with the needs of the business, for example when moving from national to international operations, or from family control to wider ownership. To meet constantly evolving challenges, the board needs the right combination of qualities and knowledge, with an ability to renew and refresh its own membership and their skills. So ‘right’, here, means appropriate for this stage of the company’s development.

It’s difficult for any group to recognise the need to change its own composition and provide for succession, but this is essential for a board. And among these appointments, that of the CEO is critical. Indeed, it’s arguable that this is the single most important decision a board can make.

Success also means the board having a common understanding about the priorities in its role. All boards fulfil the same formal purposes, but these don’t capture the real agenda. For example, does the board need to encourage the executive directors to take initiatives? Or does it need to restrain them from taking too many? Is it about adding skills (say communication) or experience (say doing business in China) to complement those of the executive directors? With a common understanding of these priorities, the board will get the best out of its members and board discussions. Without it, opportunities will be lost.
A separate issue is basic agreement about how the company’s strategy is to be achieved. This does not mean agreeing on all aspects of what to do and how to do it (there is a danger of ‘groupthink’). But if the board is hopelessly divided on basic assumptions about whether to grow organically or inorganically, and about the appetite for risk, the chances of being successful are slim.

**Appropriate measurement:** board appraisal (see Box 2) and annual personal feedback procedures need to pick up what board members think about their colleagues, about the role of the board and about delivering the company’s strategy. The chairman is key to turning the potential for disagreement into creative discussion and to defusing any potentially harmful personal differences.

**Process and relationships**

The subsequent three qualities required for board success concern process and relationships, the key questions being:

4. How effective is the board in dispatching business (including through effective board committees in and between meetings) and following up on decisions?

5. How good are internal board dynamics and culture (handling dissent, the relationship between executives and non-executives etc)?

6. How good are the board’s key relationships with major stakeholders, and is there respect for what it does?

Effective processes, including persistence and resilience in making sure things happen, not just talking about them, are a prerequisite for board success. An open culture, with the board involved early and fully in key decisions and board members...
comfortable about challenging in meetings, is crucial. So, too, is the ability to communicate effectively inside the company and with other stakeholders. And respect (not popularity) is an important signal, both inside and outside the company.

*Appropriate measurement: since the code became a requirement for listed companies, increasingly sophisticated questionnaires for board members have been developed. Discussing the answers is the golden opportunity to improve board performance. There will be feedback on respect for the board – and therefore its communication skills – from employee surveys and the opinions of major shareholders.*

**Coverage**

The questions relating to coverage are:

7. Does the board identify and focus on key (not just a long list of) issues and risks facing the organisation?

8. Is the board able to take initiatives, deal with crises and identify emerging issues?

These may look like factual questions, but both are matters of judgement. They apply as much to interpreting the past as hypothesising about the future, since usually only after an extended period is it possible to know whether the board has dealt with the right issues, how well it has done so, and which issues have not been addressed. Thus failing to ensure succession or invest in new technology is just as much about performance as successful talent management or systems investment. And boards can be really helpful in identifying risks that executive directors alone, sometimes preoccupied with current challenges, may not have spotted.

There are two questions rather than one here because a history of dealing with key issues as they arise is not enough. The ability to take initiatives, deal with crises and identify issues that are not part of ‘normal business’ is a crucial differentiator between a good and an adequate board. For the same reason ‘meeting board objectives’ isn’t included as a success measure, since it runs the risk of being too inward-looking and passively taking things too much as they are.

*Appropriate measurement: the board needs to take stock of the answers to these questions as part of its annual appraisal process.*

**Impact**

If there had to be a single question about the success of the board, it would be:

9. What is the board’s contribution to the company’s performance?

Boards will understandably want to take credit for things that go well. This inclination applies not only to the success of visible initiatives (new ventures, new people etc) but also to actions resulting in the absence of problems normally indicating board failure (eg deciding against an unfortunate acquisition, recording fewer bad debts than competitors).

But making either connection isn’t easy, particularly for contributions such as establishing ethical standards. So while it may be possible for major individual events, such as acquisitions, to be linked to board decisions, the larger the organisation and the longer the lead time between decision and result, the less plausible the connection. Even for events with a short lead time, quality of execution and overall stock market trends often mask the board’s particular role.
Appropriate measurement: the answer will be qualitative and will come from a combination of questions in the annual board appraisal and feedback from key interlocutors inside and outside the organisation. Again the chairman has a key role in using the results of the feedback to discuss members’ understanding of how exactly the board currently adds value and what it can do to improve.

**Sustainability**

Finally, comes the over-arching question:

10. Is the board aware of, and interested in, good practice?

Left to themselves, boards tend to become insular. Working methods become “the way we do things round here”. So even if the board comes out well from questions 1-9, there’s still the issue of whether it is committed to sustaining good practice. Non-executive directors can be very helpful here in giving context and helping with best practice.

Appropriate measurement: executive directors may not have a basis for comparison and even non-executives may have limited experience of other boards. But there is a huge amount of information around about good practice, including increasing amounts of detailed information in annual reports. This is not about grasping every passing fad, but about always being willing to learn.

**Conclusion**

A successful board cannot guarantee that a company will be successful, but can make a huge contribution to it being so. An unsuccessful board will mean that at best the company does not reach its potential, and at worst it is destroyed. So there’s plenty at stake here, and not only for the investors and other stakeholders who want reassurance about investments or relationships.

Board members as individuals have a great deal to gain from an answer to the question, “is the board successful?” All will want to know about the results of their efforts and, on the downside, about any danger of personal liability or to their reputations. Executive directors (and indeed all other employees) will want to know that their company is getting the best direction possible and that their futures are secure.

Answers to the above questions will mean that the successful board does not have to guess whether it is successful, and the unsuccessful one will possess information providing the basis for improvement. Continuing success will mean continuing to ask for answers to the questions. F&M

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