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Board Performance Review Webinar

Thursday 3 June 2021

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Introduction

Tim Ward

Chief Executive, Quoted Companies Alliance

- > Tim is the Chief Executive of the Quoted Companies Alliance and has been in this role since 2009.
- > Tim is a non-executive director of European Issuers and co-chair of the Smaller Issuers Committee.
- > He is a member of the Takeover Panel, which supervises and regulates takeovers in the UK.
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Filipe Morais

Lecturer in Governance - Programme Director MSc Management for Future Leaders, **Henley Business School**

- > Filipe Morais, PhD., holds a doctorate in management from the Henley Business School, University of Reading (UK) specialising in corporate governance and strategic management topics.
- > He is a Lecturer in Governance and Programme Director of Henley's MSc in Management for Future Leaders for corporate clients.
- > Filipe develops research and consults for a variety of private, public and third sector organisations.
- > In the past he worked for 10 years as an HR Analyst / Manager / Director for a variety of industries.
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BOARD PERFORMANCE REVIEW (BPR) IN SMALL AND MID-SIZED QUOTED COMPANIES

RESEARCH REPORT

Dr Filipe Morais
Henley Business School, University of Reading



Objectives & Methodology

Objectives:

- To examine current board performance review (BPR) practice among small and mid-sized quoted companies.
- To identify investors expectations regarding BPR practices.
- To produce key recommendations for small and mid-sized. quoted companies on how to conduct effective BPRs.

Methodology:

- 30 in-depth interviews with investors and board members
- 100 complete survey responses on BPR practice

Key Findings: Proactive vs. Reactive Boards

We grouped positive responses from five key survey questions to create a profile for the 'proactive board'. Those respondents who answered in the negative to these questions were labelled 'reactive boards'. So: a positive response to all of the following = proactive board; negative responses to questions 2–5 = reactive board; and a negative response to question 1 = inactive board. In question 4, a response of either "good" or "excellent" scored a 'proactive' rating. The questions were:

1. Does the board undergo a regular formal evaluation process?
2. Are the objectives of the board performance review made explicit from the outset?
3. Is there proactive follow-up from a previous evaluation?
4. How effective is the board at applying the recommendations from an evaluation?
5. As a result of the arising actions, do objectives continuously change for subsequent evaluations?

Of the 78 companies conducting board performance reviews, a significant number (56) have boards that tend to approach their performance reviews reactively, with the other 22 of those 78 being proactive in their approach. The remainder (22 companies) were inactive.

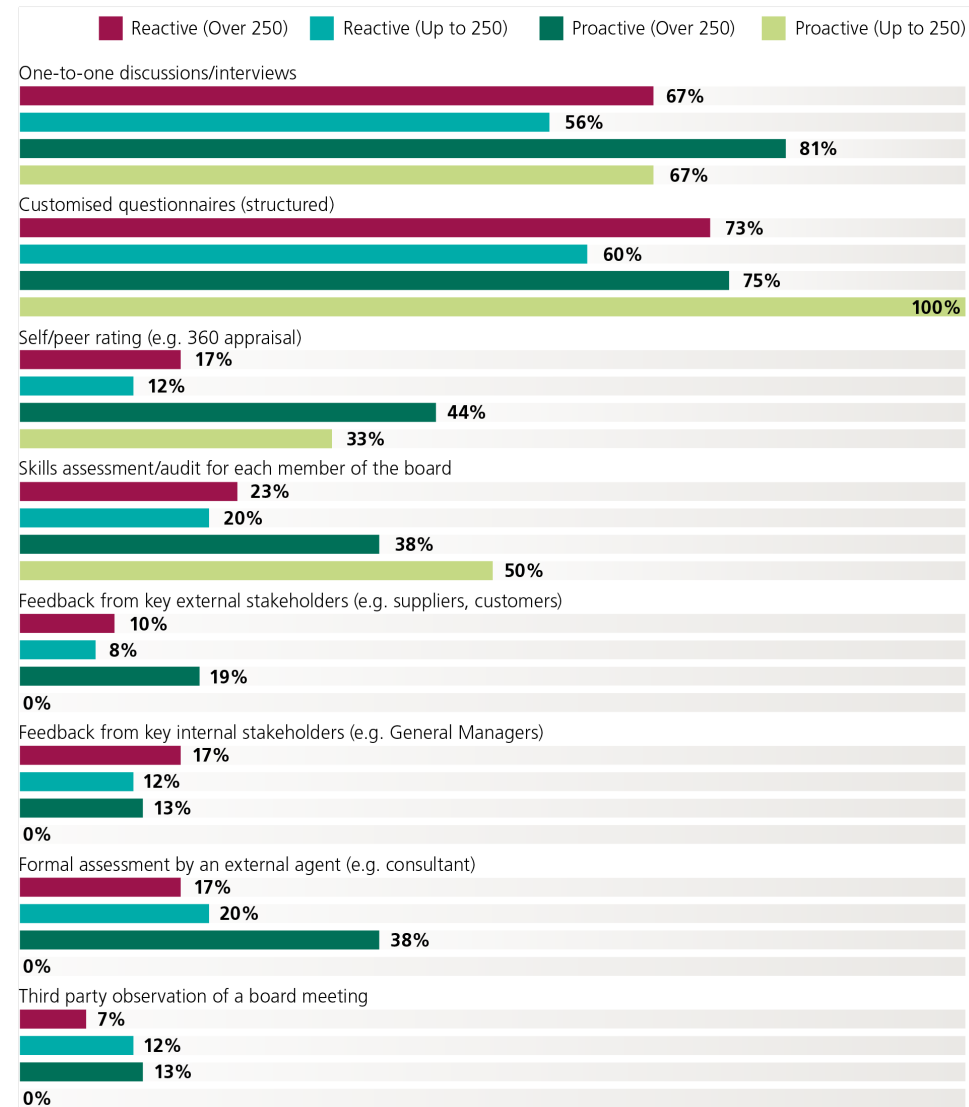
Key Findings: Proactive vs. Reactive Boards

- BPR METHODS

Proactive Boards do use significantly more the following methods:

- Self / Peer Ratings
- Skills assessment/ audit for each member of the board
- Feedback from key external stakeholders (e.g. suppliers, customers)
- Formal assessment by an external agent

Figure 7: What methods are used to evaluate the board?



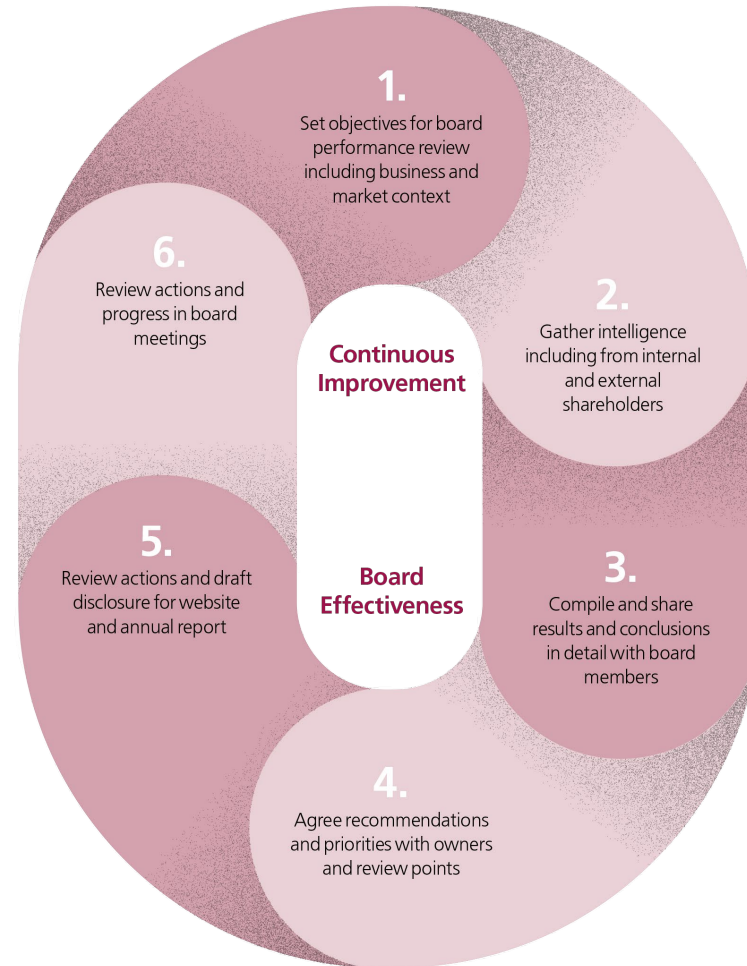
Key Findings: Proactive vs. Reactive Boards - BPR BENEFITS / VALUE

Table 3: What are the tangible benefits of a board performance review?

Tangible benefits	Proactive boards (%)	Reactive boards (%)
Strategy and competitive advantage	27.3	16.4
Innovation and new ideas generation	13.0	10.9
Value creation	31.8	14.5
Improved sustainability	22.7	10.9
Added stakeholder value	31.8	16.4
Improved board performance as a whole	86.4	69.1
Improved individual performance of board members	68.2	56.4
Greater shared understanding	59.1	47.3
Improved governance	68.2	58.2
Improved diversity/board composition	31.8	38.2

Key Findings: The BPR Cycle of Continuous Improvement

Figure 13: Cycle of good board performance review practice



Conclusions

- Board performance reviews can unlock significant value, prevent value destruction, and improve relationships and the reputation of the board both within the board itself and with investors and other stakeholders.
- Proactive boards are those that approach board performance reviews in a dynamic fashion with a focus on continuous improvement; they are also those that report the greatest tangible benefits.
- **There is still a lot of room for improvement in board performance review practice in small and mid-sized quoted companies.**

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**Tim Ward
Chief Executive
Quoted Companies Alliance**

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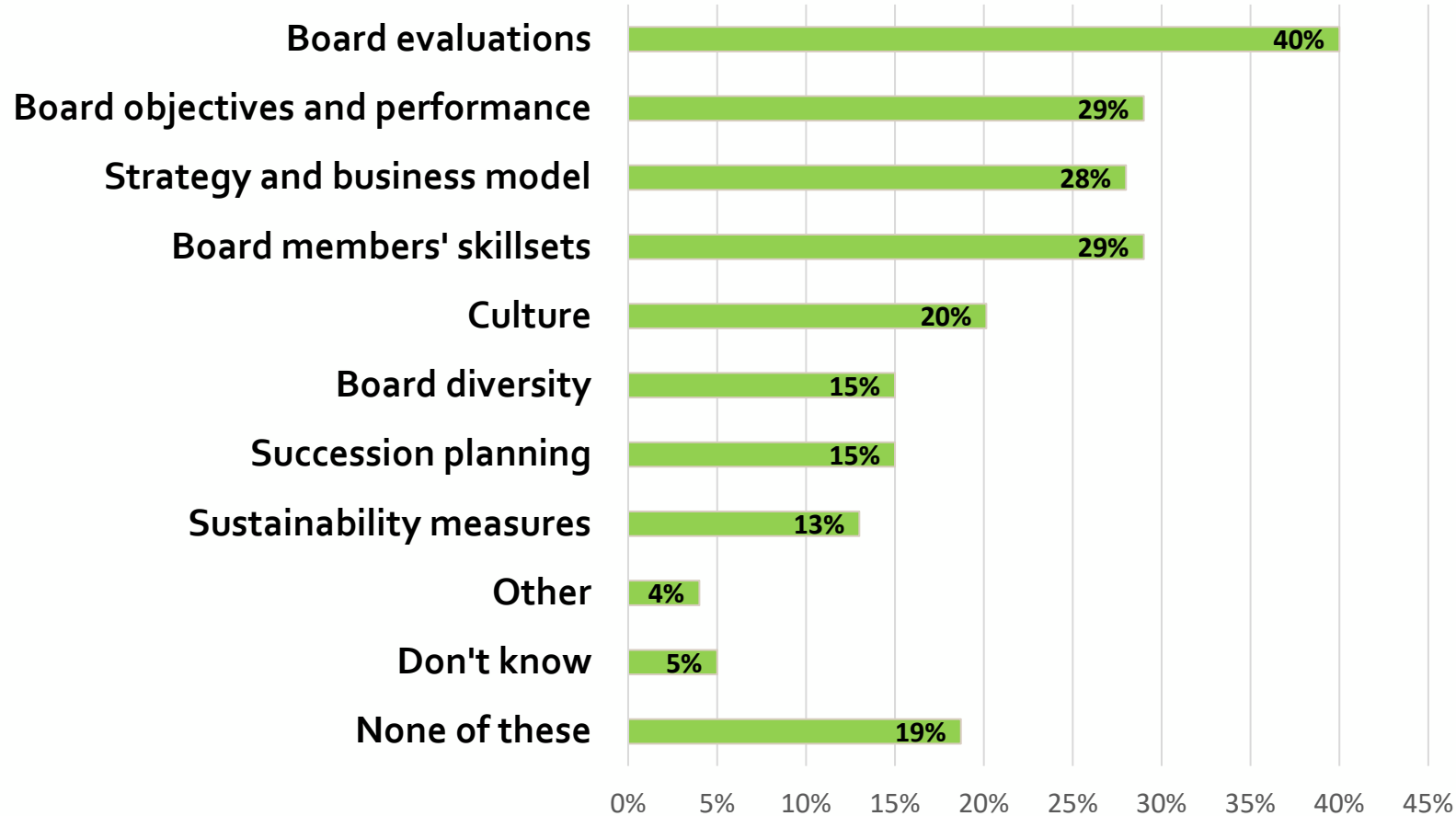
**Board Performance
Review Guide**

theqca.com

Many boards conducted reviews after adopting the QCA Code

Disclosures- New information

Q. Which areas in particular, if any, have seen the greatest amount of new information being disclosed to the market by your firm since adopting the QCA Code?



The QCA Code

- Principle 7 recommends that companies:

"Evaluate board performance based on clear and relevant objectives, seeking continuous improvement."



QCA Board Performance Review Guide

- This guide is non-prescriptive;
- It is designed to help boards develop their approach to both internal and external reviews;
- Both have their time and place; and
- Whichever way, it's all about increasing board effectiveness.



The Guide has six recommendations

- Board Performance Reviews should:
 - > *be led by the Chair;*
 - > *be dynamic and context-specific;*
 - > *focus on value-adding board activities;*
 - > *take into account the views of a variety of stakeholders;*
 - > *be understood as continuous improvement; and*
 - > *be transparent and disclosed appropriately.*



Each recommendation is supported by

- Dos and Don'ts
- Questions for the Board



Do

- Ensure that the Chair is explicitly accountable for the review.
- Structure the process with a plan, timetable and accountable owners.
- Consider who should constructively review the Chair's performance.

Don't

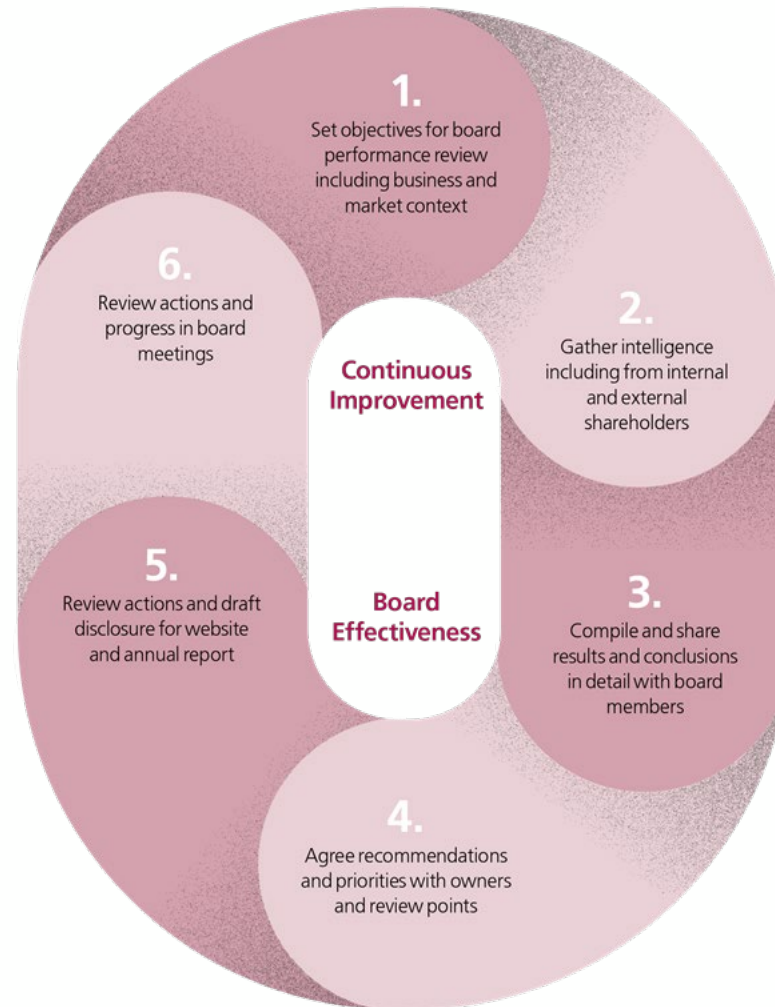
- Approach the review purely as a compliance exercise.
- Exclude any board member from full participation.
- Minimise the process for the Chair's performance review, just because it's the Chair.

Questions for the board

- Who is the best person to manage the process and facilitate the review?
- What are the explicit drivers for conducting this year's review?
- How could your Nomination Committee be involved?

Cycle of good board performance review practice

Figure 13: Cycle of good board performance review practice



Good board performance review practice

- Suggested questions to reflect on after each meeting support the annual cycle approach
- Questions could cover
 - > *engagement*
 - > *alignment*
 - > *decision making*
 - > *capability*
 - > *the board agenda*
 - > *Chair/CEO dynamics*

Critical areas	Key questions
Board capability	<ul style="list-style-type: none">• Are there important skills and experience absent from the board that would enable better debate and decision-making?• Is the board capable of understanding it needs to renew itself?
Board agenda	<ul style="list-style-type: none">• Was the agenda well-constructed and reflexive of the fundamental challenges and concerns of the board?• Was there appropriate time for strategic debate?• Were there any risks and/or opportunities that were absent or ignored?
Chair-CEO dynamics	<ul style="list-style-type: none">• Are there dynamics in the Chair-CEO relationship that are adversely affecting how the board operates?

The Guide enables the QCA Code to add value

- Principle 7 recommends that companies:

"Evaluate board performance based on clear and relevant objectives, seeking continuous improvement."





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Judith MacKenzie

Partner, Downing LLP

- > Judith joined Downing LLP in October 2009. Previously she was a partner at Acuity Capital managing AIM-quoted VCT and IHT investments and a small-cap activist fund.
- > Prior to Acuity, Judith spent nine years as a senior investment manager with Aberdeen Asset Management Growth Capital as co Fund Manager of the 5 Aberdeen VCTs, focusing on technology and media investments in both the public and private arenas.
- > Judith is a Non-Executive Director of the Quoted Companies Alliance and is an active member on Boards both in the private and public arenas.
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Q&A with our speakers



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Thank you for participating



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