

# NED Conference

25<sup>th</sup> February 2015



# Board Evaluation: Engaging an External Facilitator



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# Board Evaluation: Engaging an External Facilitator

“Whilst 94% confirmed they undertook rigorous annual evaluation of the performance of the Board, in only 15% of cases had this been externally facilitated in the last three years”

AFM Corporate Governance Report 2014



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# Board Evaluation: Engaging an External Facilitator

- What does an 'externally facilitated' Board evaluation entail?
- How often should an external facilitator be engaged?
- Who are the external facilitators? How do their approaches differ?
- What are the pros and cons of engaging an external facilitator?
- Should external facilitators be retained or rotated?



# Board Evaluation: Engaging an External Facilitator

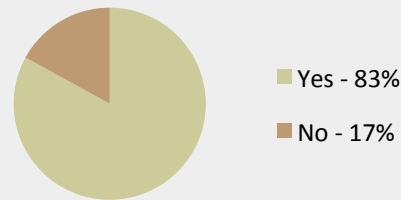
“Evaluation of the board of FTSE 350 companies should be **externally facilitated at least every three years**. The external facilitator should be identified in the annual report and a statement should be made as to whether they have any other connection with the company.

For mutual insurers ‘FTSE 350 companies’ should be read as mutuals with gross premium income of more than £20 million per annum on average over the preceding three financial years, or assets of more than £100 million on average at the end of the last three financial years.”

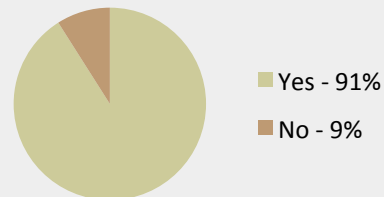
UK Corporate Governance Code  
Annotated Version for Mutual Insurers, October 2014

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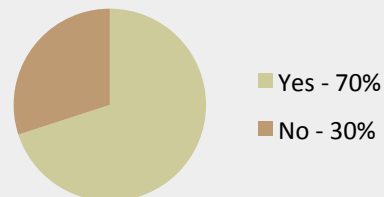
Are you supportive of the recent change to the UK Corporate Governance Code to require external facilitation of Board reviews every three years for FTSE 350 companies?



Were you satisfied with the quality of the external facilitation which you received for the most recent external Board review that you conducted?



Do you feel that sufficient, high quality external support for Board reviews is available in the market?



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External facilitators and their approaches:

- Individuals / advisory firms
- Surveys / interviews
- Board meetings / papers / minutes
- Individual performance / collective performance
- Facilitate self-review / coaching



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“There is a need for cost-effective and relevant forms of externally facilitated board evaluation for mutual insurers: whilst boards now habitual evaluate their performance, this process is very inconsistent, and the absence of external evaluation to date appears to be caused by **cost** and **lack of relevance**, despite the obvious benefits”

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## Disadvantages of engaging an external facilitator

- Fee levels
  - Value for money
  - ‘You get what you pay for...’
- Lacking in understanding
  - Organisation and its circumstances
  - Personalities and dynamics of the Board

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## Advantages of engaging an external facilitator

- Objectivity and independence
  - Depersonalise the process
  - Openness of Board members
  - Credibility and authority
- Potential for ‘cross fertilisation’
  - Sharing of best practice
  - Internal Board reviews

# Board Evaluation: Engaging an External Facilitator

Retain or rotate external facilitator?

- Multiple reviews for the same client
- Conflict of interest?
- Benefits of long-term relationship
- Accountability for recommendations



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