Building Better Boards:
Assessing Board and Corporate Performance

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Annual reviews of board performance sometimes focus excessively upon board practices, structures and dynamics. They often devote less attention to impacts upon corporate performance. Board members may be diverse and willing to challenge. They may be well qualified and have good attendance records. Remuneration consultants who are eager to retain their clients may suggest they should be paid in the top quartile, but what about results? Are they taking the right decisions and adding value? Companies with experienced directors still fail after good board reviews and after meeting governance and reporting requirements.

What about the companies that are treading water and surviving rather than thriving? Maybe, given the challenges they face matters could be much worse, but should one start by looking at corporate performance and then working back to the particular contribution of the board? The success of a business can reflect the activities of many players other than directors. Smart boards ensure that the key individuals and work-groups that contribute disproportionately to the achievement of corporate objectives are identified, well supported and enabled to excel.

Corporate performance can depend upon a variety of factors and economic circumstances. Marketplace dynamics and the activities of external parties from regulators to competitors can all influence results. A change of law or tax rate might apply to all liable businesses, but an external innovation or a competitor move may impact upon some companies more than others. Defensive performance can sometimes be as important as that in attack.

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Assessing Progress

So how should one assess performance and progress? Are there considerations that apply to the performance of both boards and companies? The questions that should be asked can depend upon one's interests or role, for example whether a shareholder of a listed company or a family member not directly involved in the management or governance of a family company, but with a degree of dependence upon how it performs. A customer might give priority to security and/or rapidity of supply. Employees may be concerned with advancement prospects and reputation. Governments and communities sometimes consider development and performance in terms of the number of jobs created and the extent to which growth is inclusive and shared. Some people focus on the present, others look to the future.

Traditional corporate performance measures tend to be based upon changes, preferably improvements, from a situation in a previous year. However, where a company has been may not be where it would either like to be or should be. It might make more sense to measure performance relative to opportunity, or against a vision, either the vision of the board or, in the case of a board lacking in ambition and imagination, what the vision could be or perhaps ought to be. It might help remuneration committees to reign in excessive demands if performance measures highlighted where directors had fallen short rather than recorded their achievement of modest and perhaps inappropriate targets. However, how could one be sure that opportunities were relevant and actually available at the time?

Potential Areas of Fudge

Many financial measures of performance overlook missed opportunities, social impacts or the exponentially rising future cost of the consequences of delays. However, if alternative performance measures were adopted might some boards select those which would exaggerate their contribution? Would assessments of opportunities be challenged as overly subjective, conservative and/or unrealistic? With hindsight it is often easy to criticise people for not spotting what most others did not see at the time. Decisions are not taken in a vacuum. An external party would also not necessarily know the pressures that directors were under when decisions were taken, or the various factors that had to be taken into account. Crawl out and transition costs might be much higher for one board than another.

Sometimes the approaches, tools and techniques that directors use expose their deficiencies. For example, those being assessed often prefer criteria that are relatively easy to satisfy. Balanced scorecards are sometimes favoured where a high proportion of targets and/or indicators can be achieved and failure in a few critical ones can be rationalised or portrayed as exceptions. Sometimes there may be so many assessment criteria that important ones are overlooked. Priorities, focus and how trade-offs are handled can be very revealing.

In trying to cover all areas, some users of balanced scorecards call for so many measures to be reported that they are inundated with information and cannot see the wood for the trees. Others are more selective. They recognise that in relation to reporting less can be more. Even when colleagues ask for more information they concentrate on the vital few indicators that relate to key priorities. Cover sheets to board papers can show the consequences of proposed actions upon key priorities or the impacts of past decisions and events upon them.

Widening Assessments

Boards and companies can be assessed against the challenges and adversity they face as well as in relation to opportunities they may have seized, missed or lost. It is sometimes said that successful people create their own luck. While this may be so in some respects for longstanding directors, some boards have an easier ride than others. When challenged, some boards focus almost exclusively on extraction while others are better able to multi-task. In addition to consolidation and re-positioning, they also look for alternative uses of corporate capabilities. For example, a local retailer could consider devoting available space to becoming a 3D printing centre for a surrounding community. A co-operative model might fund a central website and enable a number of similar centres to purchase local printers.

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In uncertain situations and when multiple changes are occurring simultaneously measures of agility and flexibility can be invaluable. Some boards are better than others at avoiding getting bogged down, locked in or out, or lost down dark allies. They try to structure arrangements and contracts so that when they need to they can extract themselves with as little cost and disruption as possible in order to move on to better opportunities. Other boards throw good money after bad and may miss the same possibilities by being elsewhere for too long. For many large companies, one area of inflexibility has been an annual planning process. These can become ever more elaborate, structured and expensive on account of the people in corporate head offices who organise and administer them. Such plans can be quickly overtaken by events. It may make more sense to employ a combination of models and scenarios that can accommodate changes. Smart boards intelligently steer enterprises through challenges and opportunities.

Awareness can be a decisive directorial quality in terms of impact on performance. Quite simply, some directors and boards may be aware of the relative merits of different business models, or the potential of new technologies, while others may be either ignorant of them or may ignore them. In some sectors, the largest players today are those whose boards first committed to on-line models of business, or were established by one or more entrepreneurs who saw the opportunity. Knowing when to commit and speed of movement and transition can be critical. Certain retailers were much quicker than others to develop their on-line sales operations. Some of the retail chains that moved too slowly to reduce their dependence upon physical outlets are struggling to survive and catch up, or have already gone into liquidation.

Purpose and priorities can be important performance indicators as well as differentiators. Do they reflect increasing stakeholder concern about the environment and climate change? In the case of oil companies, one could assess the extent to which boards are committed to become suppliers of energy rather than just oil-based products, by measuring the transition from oil to electricity and renewable energy. The ability to manage major projects and significant programmes can also be a differentiator. Some boards may excel at taking the right decisions, while others might be particularly good at ensuring implementation.

Inputs and Outputs

The outputs of many boards are limited by the inputs they commission and receive. The reports sought by boards can give valuable clues as to the focus and thinking of directors. Are they overly influenced by fluctuating numbers from one month to the next, or are they monitoring trend lines for discontinuities and clear evidence of what is getting better or worse over time? Do they see a company as a single whole, or do they recognise the diversity of achievement that may exist across brands, business units or other entities? Comparative figures can enable units to be identified who could learn from each other.

Innovation and progress can largely depend upon asking the right questions. Those reporting to a board should be asked to identify root causes for achievements that are better or worse than expectations. Some boards dwell excessively on downsides and avoiding further disappointment. They give inadequate attention to learning from relative success in order to do even better. No report should be complete without suggested actions and it is often those closer to a situation who might have a clearer idea of what ought to be done. The value of a board's own annual report and accounts for assessment purposes can depend upon the extent to which those who draft it anticipate or identify and then address the questions of the stakeholders for whom improvements in performance are being sought.

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