



How Board Evaluations Can Enable Value Creation

By Lars Smith & Nuno Fernandes



In today's world, every company, regardless of size or industry, faces unprecedented challenges and opportunities. From geopolitical risks that redefine global business dynamics, to the endless horizons opened by Artificial intelligence, navigating this terrain requires a board that's not just active, but proactive.

Yet, how do boards maintain and improve their effectiveness and efficiency? How do they ensure their relationship with management is both open and constructive, facilitating the agility needed to adapt to rapid changes?

What is Board Evaluation?

All roles and functions in an organization are regularly subject to performance evaluations, and the board should be no exception. The board evaluation is a structured process for taking stock

of the board's way of working, and also identifying opportunities for development.

Proactive Use of Board Evaluations

The effectiveness of a company's board of directors is not merely a reflection of its governance prowess but a significant driver of its overall success. As the demands on corporate boards continue to evolve in response to market shifts, regulatory changes and stakeholder expectations, the importance of conducting regular and thorough board evaluations has never been more pronounced.

Effective boards are instrumental in shaping strategic vision, ensuring robust governance and fostering a culture of accountability within organizations. They serve as the bridge between stakeholders and the management team, offering oversight and guidance that steer the company towards its long-term objectives.



Benefits of a Board Evaluation

The role of the board has undergone significant transformation over the years, with more transparency and greater focus on the board dynamic to ensure optimal performance. Today's boards are expected not only to fulfill their traditional responsibilities but also to be deeply engaged in strategy, risk management and sustainability issues. Investors are also more demanding, with the topic of board design and effectiveness regularly discussed prior to their engagement with companies. Indeed, in many jurisdictions around the world, board evaluations are mandatory for larger companies, in particular listed ones. This expanded remit requires boards to possess a broader skill-set and a more dynamic approach to governance.



An effective board is characterized by a diversity of thought, expertise, experience and open culture to help the leadership team navigate the complexities of today's business landscape with insight and flexibility.



Board evaluations offer a structured mechanism for assessing the board's effectiveness and identifying areas for improvement. They provide a platform for reflection on the board's performance, composition, value creation, succession planning, culture, processes and interaction with the executive team. Board evaluations encourage a culture of continuous learning and development,

ensuring the board remains fit for purpose amid changing business landscapes.

How to Carry Out a Board Evaluation

Several models exist for conducting board evaluations, ranging from internal reviews led by the chairman or a board committee

to external assessments carried out by independent and impartial advisers, to observation in the boardroom. These models vary in their approach and focus but share a common goal: to provide an objective assessment of the board's performance and its alignment with the organization's strategic objectives.

Assessments can be done on the full board, board committees or individual directors. Effective evaluations consider various dimensions of

board performance, including its structure, dynamics, competencies, and processes, as well as the contribution of individual directors. They assess the board's role in strategy formulation, risk oversight, succession planning and stakeholder engagement, among other responsibilities. And they should be conducted in an environment conducive to openness and honesty among directors.



“ After the board evaluation, a proper follow-up is essential to help the board utilize the insights to craft an actionable plan. Assessment results should inform the formulation of board and committee succession plans.

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Importantly, the chosen model for board evaluation must be tailored to the specific context of the organization, considering its ownership structure, legal requirement, sector specific regulation, industry and corporate culture. For instance, the evaluation process for a publicly listed company may differ significantly from that of a family-owned enterprise or a nonprofit organization. Customizing the evaluation to the organization’s unique characteristics ensures that it is both relevant and effective in driving board performance.

Frequency

Best practices suggest that board evaluations should be conducted annually as part of a regular cycle of activities. This frequency ensures that the board remains focused on the organization’s strategic direction and can adapt to changes in its external environment or internal dynamics. Additionally, it’s prudent to undertake a more comprehensive, in-depth review every three years, possibly involving external facilitators to gain fresh perspectives, and a neutral environment.

Special circumstances may also necessitate off-cycle competency analysis. These include significant shifts in strategy, the business landscape or after the completion of a substantial merger or acquisition.



Core Elements of a Value-Creating Board

Our method consists of the following core elements which forms the foundation of successful board work:

- The basis for a value-creating board consists of the most important areas of responsibility for the board: strategy, financial oversight and control, risk management and the right management team. Additionally, the chairperson responsible for utilizing the diversity of competencies to the benefit of the company, stakeholders and the leadership team.
- Research, previous board evaluations and observations from boardrooms also illustrate four important pillars:
 - Board composition.
 - Team dynamics.
 - The relationship between the chairperson and the CEO.
 - Structure and processes/committees.

- Good governance and compliance as well as ownership structure.
- Additionally, we follow-up from the latest board evaluation to secure a roadmap for the board's development.

The boards that will lead their companies to success are those that recognize the power of introspection, adaptation, and evolution. Board evaluations stand as a cornerstone of contemporary corporate governance, offering both a reflective analysis of current performance and a strategic blueprint for future excellence. By cultivating a culture of self-assessment and perpetual advancement, these evaluations not only amplify board effectiveness but also establish a high standard of leadership. Ultimately, they are instrumental in driving organizational health, fostering value creation, and securing long-term success.



About the Authors



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Lars Smith is Managing Partner in Odgers Berndtson's Copenhagen office where he specializes in corporate governance, board evaluation and high level assignments in the technology, infrastructure, public, industrial, and energy and renewables sectors.

He is also part of the Odgers Berndtson Global Tech Practice, Industrial EMEA Practise and Renewable & Cleantech Practice.

Lars is actively involved in leadership assessment and development. He is a certified coach and has practiced as a coach for business leaders and top athletes for several years.

Previously, he worked as CEO and Divisional Director at Siemens IT Solutions & Services. Lars held senior management positions in Siemens Nixdorf Computers and Siemens Business Services in Denmark, and has been one of the driving forces behind Siemens' position in the IT sector.

Lars holds a Master's Degree in Organizational Psychology from Roskilde University and a Corporate Governance Certificate from INSEAD. He is originally trained as an Electronics Engineer.



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Nuno Fernandes is the Managing Partner at Odgers Berndtson Board Solutions, where he focuses on helping boards establish and maintain strong corporate governance, recruit the best talent, and function more effectively.

Before joining Odgers Berndtson, Professor Nuno Fernandes was the Chairman of the Board of Auditors at the Portuguese Central Bank (Banco de Portugal) and a Full Professor at IESE Business School (Spain). Earlier, Professor Fernandes was Professor of Finance at IMD in Switzerland and the Dean of Católica-Lisbon.

Throughout his career, Professor Nuno Fernandes has advised the boards and C-suites of companies and financial institutions in Asia, Europe, Latin America, and the Middle East on corporate governance, financial strategy, mergers & acquisitions, and sustainability. A thought leader who contributes regularly to international media and leading international academic journals, Professor Fernandes is the author of several books and the recipient of numerous teaching and research awards.

He is also a Professor of Finance at IESE Business School, Chairman of the Audit Committee at the European Investment Bank, and a Research Associate at the European Corporate Governance Institute. Nuno Fernandes earned his PhD in Management (Finance) from IESE Business School and a degree in Economics from Universidade Católica Portuguesa.