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BETTER BOARDS: EVALUATION CODE PROPOSED

By Dina Medland

Boardroom behaviour at UK listed companies has scarcely been out of the news in the five years since Sir David Walker's 2009 review into corporate governance in banks, writes Dina Medland.

Conducted in the wake of the financial crisis, it criticised boards as being supine. Since June 2010, when the UK Corporate Governance Code incorporated a recommendation that FTSE 350 companies undertake an externally facilitated board evaluation at least every third year, there has been an increased demand for board evaluations from a wide range of businesses, not just those in the FTSE 350, says the Institute of Directors.

External evaluation of board strength has become a lucrative business, with many participants and growing concerns about standards.

To address these, a proposed code of practice was launched last week, along with a framework enabling companies and boardroom advisers to work more effectively together.

Helen Pitcher, board effectiveness consultant and chairman of Advanced Boardroom Excellence, a new firm behind the launch, says: "The market suffers a lack of clarity as to what chairmen and company secretaries can expect from a board evaluation. Many chairmen also lack information on who the key players are, or they have had variable experience of evaluations and are unclear as to what represents value, with fees ranging from £20,000 to £250,000 in some instances."

The Financial Reporting Council's guidance on board effectiveness in 2011 focused strongly on board composition, the need to pay attention to behavioural dynamics, and the importance of evaluation, as well as boardroom succession planning. As UK listed businesses sought boardroom advice, the number of advisers expanded rapidly.

Today the business is dominated by individual practitioners who often have long-standing relationships with chairmen who repeatedly use their services as they take on new roles.

Furthermore, as there is no stipulation against headhunters conducting boardroom evaluations, the same individual who was responsible for the placement of a non-executive director in a boardroom could later be the one evaluating them.

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Key features of the proposed code from AB Excellence would include advisers not pursuing more than two consecutive assignments in order to remain independent, clarity on conflicts of interest, safeguards against potential insider trading, the creation of an independent oversight body and an overall emphasis on communication between client and adviser at all stages of the process.

Sir David Walker, now chairman of Barclays, has welcomed Ms Pitcher's proposed code of practice for independent external board evaluations as "a timely initiative".

The proposed code will now be subject to public consultation.

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