Building A Resilient Future: Leveraging Board Evaluation For Enhanced Performance And Sustainability

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The role of corporate governance in a dynamic business landscape cannot be overemphasized. The board of directors plays a pivotal role in steering companies toward success, not only in financial terms but also in promoting sustainable practices that ensure long-term viability of the organisation. A crucial, yet often underutilized tool for achieving this balance, is the process of board evaluation. By assessing their own functions, boards can fortify their performance, foster sustainability, and chart a course for a resilient future for their companies.

Board evaluation is a reflective exercise which serves as a cornerstone for corporate governance, enabling boards to identify strengths, weaknesses, and areas for improvement. This introspective process is not about fault-finding, but about empowering boards to perform at their peak potential. Through comprehensive assessments of board composition, dynamics, and decision-making processes, board evaluations provide a roadmap for bolstering effectiveness.

Board evaluations enable boards to ensure the development of a diverse set of competencies necessary for addressing evolving challenges. They stimulate candid conversations and constructive feedback among board members, fostering an environment of trust and collaboration conducive to sound decision-making.

In this article, we explain how board evaluation can be used as a tool to drive sustainability and enhance a company's performance.

Board evaluation as a sustainability driver

The concept of sustainability has transformed from a popular corporate term into an essential concept in business. Leading boards integrate sustainability into their strategy and decision-making process. To this end, board evaluation serves as a strategic enabler by assessing the extent to which sustainability is embedded in an organization's ethos and practices.

By evaluating the alignment of the board's goals and actions with sustainability objectives, companies gain insights into areas requiring attention. This entails scrutinizing environmental, social, and governance (ESG) factors and ensuring that these factors are integrated into the company's strategy. Through board evaluation, boards can assess their performance with regard to social responsibility, ethical practices, and environmental stewardship, thereby aligning with the expectations of stakeholders and the broader societal context.

One key parameter in the evaluation process is the alignment of the board performance with strategic planning. Assessing the board's performance in relation to its responsibility to set goals and chart a course for the company over an extended period ensures that decisions and actions are in harmony with the organization's long-term sustainability goals. Sustainability, as an ongoing journey, requires a robust evaluation of the existing structure and its alignment with defined regulations and industry benchmarks.

Board evaluation is used as a tool to assess whether the Board, its committees and its members have satisfactorily performed their required duties and responsibilities, and to rigorously test whether the Board's composition, dynamics, operations and structure are effective for the company and its business environment, both in the short and long term.

Leveraging board evaluation for enhanced performance

The convergence of performance and sustainability is where the true strength of board evaluations lies. By recognizing the interplay between these elements, boards can fortify their decision-making processes to withstand turbulent times. Board evaluation outcomes inform strategic planning, enabling boards to anticipate and proactively address risks and opportunities, thereby building resilience in the face of uncertainties.

Through board evaluation, boards can identify and prioritize sustainability and in effect become better positioned to align with emerging trends and navigate regulatory changes. This forward-thinking approach not only mitigates risks, but also cultivates a competitive edge, attracting socially conscious investors and customers while enhancing the

company's reputation and brand value.

Board evaluation in Nigeria – application and parameters

Board evaluation is a recommended practice under Principle 14 of the Nigerian Code of Corporate Governance 2018 (**"the Code"**). The Code further provides that the exercise should be facilitated by an independent external consultant at least once in three years.

The following entities are mandated to adopt and comply with the provisions of the Code:

a) all public companies (whether a listed company or not);
b) all private companies that are holding companies of public companies or other regulated entities;
c) all concessioned or privatised companies; and
d) all regulated private companies being private companies that file returns to any regulatory authority other than the Federal Inland Revenue Service (FIRS) and the Corporate Affairs Commission (CAC)[1].

The Code provides that the board evaluation should consider the mix of skills, experience, objectivity, competence of members of the board, its diversity (including gender), knowledge of the company and its

1. Following the expansion of the definition of Public Interest Entities ("PIE") under the Financial Reporting Council of Nigeria (Amendment) Act 2023 (the "Act"), boards of entities classified as PIEs under the Act may be required to conduct board evaluation in compliance with the Code since the Code was issued pursuant to the Act. Further to the amendment of the Act, PIEs are:

(a) Governments and government organisations, (b) listed entities in any recognized exchange in Nigeria, (c)non-listed entities that are regulated; (d) public limited companies; (e) private companies that are holding companies of public or regulated entities; (f) concession entities;(g) privatised entities in which the government retains an interest; (h) entities engaged by any tier of government in public works with an annual contract sum of N1 billion and above settled from public funds;(i) lincensees of the government; and (j) all other entities with an annual turnover of N30 billion and above.

strategic direction, attendance at meetings, how the board works together and other factors relevant to its effectiveness. However, in practical terms, the performance of the board is rated in six key areas which include the board structure and composition, the board's involvement in strategy and planning, board effectiveness, risk management and compliance, corporate citizenship as well as transparency and disclosure.

Conclusion

In the pursuit of a resilient and sustainable future, boards must harness the potential of board evaluations. These assessments are not mere administrative checkboxes but potent tools for the enhancement of organizational performance. By leveraging board evaluations to optimize performance, integrate sustainability, and enhance decision-making, boards pave the way for a future that is both robust and responsible.

As companies navigate the complexities of the modern business landscape, the commitment to continuous improvement through rigorous board evaluation processes will undoubtedly be a defining factor in shaping a resilient, sustainable, and prosperous future for them.

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