Accepted for publication at *International Journal of Disclosure and Governance* (Palgrave); August 2020

Self or other: Directors' attitudes towards policy initiatives for external board evaluation

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The authors declare they have no conflicts of interest.

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Abstract: Recurrent crises in corporate governance have board practice and created policy pressure to assess the effectiveness of boards. Since the 1990s boards have faced calls to undertake regular, formal evaluation. Since 2010, the UK Corporate Governance Code has urged large corporations to engage outside parties to conduct them at least every three years, a move that other jurisdictions have copied. Despite this policy importance, little research has been conducted into processes or outcomes of board evaluation. This study explores the attitudes of directors on evaluation, whether self-administered or facilitated by others. We find acceptance of the principle but reservations about the value and even honesty in questionnaire-based approaches. We find scepticism about, but also acknowledgement of, the benefits of using outside facilitators, especially for their objectivity and because their interviewing elicits insights into board dynamics. As this practice expands beyond listed companies to non-listed ones, charities, and even governance branches of government, our findings point to a need to professionalise outside facilitation.

Keywords: Board evaluation, external facilitation, directors, corporate governance

Introduction

When the British company Carillion collapsed in early 2018, there was nothing to save. A major government outsourcing firm, it was simply liquidated, not even allowed the slim chance of survival permitted under the bankruptcy form called "administration". Months earlier, its final annual report boasted complete compliance with the UK corporate governance code. Moreover, it declared that its latest board evaluation, conducted by a leading firm of specialist facilitators, had determined its board to be "highly effective" and "further improved" (Booth & Nordberg, 2018).

Crises in corporate governance seem to know no end, despite decades of policy initiatives and changes in corporate practice. In the UK, lessons from multiple corporate collapses in the early 1990s set a new direction in code-based best practice (Cadbury, 1992), but it proved not to be an elixir (Nordberg & McNulty, 2013). Policy in many countries now pushes corporations to conduct regular and systematic reviews of the performance of their boards of directors. Many companies have complied: some boards conduct self- and peer-evaluation; at others, the chair conduct appraisal of fellow directors and the board as a whole. Following the global financial crisis, the emphasis has swung towards using external facilitators for impartiality and expertise. Even so, corporate malfeasance has not been vanquished, as the failure of Carillion, exemplifies (UK Parliament, 2018).

The idea of board evaluation has a long and wide pedigree. The Toronto Stock Exchange recommended evaluations as far back as 1994 (Cadbury, 1999). The New York Stock Exchange requires annual, internal board and committee evaluations (NYSE, 2014). Professional advisory firms in a variety of countries recommend it (e.g., in India; see Deloitte, 2014). Board evaluation became policy in the UK with publication of the version of the Combined Code (FRC, 2003) that followed the Higgs Review (2003). Initially the code urged annual evaluations in some form, and later (FRC, 2010) came a recommendation that external facilitators lead the process at least every three years, rather than relying only on internally conducted evaluations.

Despite this interest from practitioners and policymakers, empirical research in board evaluation is still quite limited (Nordberg & Booth, 2019a). The sensitivity of the subject matter, combined with much discussed problems of penetrating the “black box” of corporate boards (Zona & Zattoni, 2007), means that access is difficult. This paper makes a start by exploring attitudes of directors who have undergone the process. Even though their companies fall below the threshold specified in policy, all have been involved in board self-evaluations and several had experience with evaluations using professional facilitators.

Our contributions are two-fold: First, this study shows acceptance, sometimes grudging, that external evaluation of boards can add value when they focus on interpersonal dynamics that questionnaire-based evaluations overlooks. This validates the policy direction in codes and listing rules to mandate at least occasional use of external facilitators in larger firms. Second, acknowledgement of that value, even among companies not bound by such institutional or policy pressure, also points to a need for a professionalisation of service providers, and for research to better understand the overlaps, complementarities, and limitations of board self-evaluation and exercises facilitated by outsiders.

The balance of the paper is organised as follows. To set the scene, we sketch the market and institutional context in which calls for board evaluation became so strong. We then review the modest but growing literature on board evaluation, differentiating between normative, conceptual, and empirical studies. After a discussion of the sample and the method of data analysis, we report on interviews with 17 people holding director roles at 50 listed companies operating under British law and regulation. We then discuss the implications of their views for the process of evaluation, identifying different functions the two types can serve and different processes they might follow, as well as avenues for further research.

Despite its small scale, this study also offers reasons to question some well-intended policy prescriptions in recent years and to build evidence for future policymaking. In so doing, it provides a basis for thinking that boards might use more extensively the discretion they have under the "comply-or-explain" provisions of codes like the UK Corporate Governance Code to experiment with other approaches.

Market and institutional context

Poor board performance has long been mooted as the source of corporate governance lapses. Agency theorists identified lax controls on senior management as contributing to both the rises in executive pay and the lack of concentration of shareholder value in the 1970s, especially in the US (Eisenhardt, 1989; Fama, 1980; Ross, 1973). This theorising led to normative conclusions including stronger and more independent boards of directors and greater shareholder scrutiny (Bebchuk & Fried, 2003; Roe, 1994). Professional bodies, including the National Association of Corporate Directors in the US (NACD, 2001), and stock exchanges like Toronto recommended some form of board appraisal to safeguard against lazy directors (Cadbury, 1999; Leblanc, 2002). Nonetheless such urging met with considerable resistance among directors (Ingley & Van der Walt, 2002).

The collapse of major corporations in the 2000–2003 period, particularly in the US, led to policy demands for action. In the UK, the government-sponsored Higgs Review (2003) recommended annual evaluations of the whole board, committees, and individual directors, adding that using outside facilitators "can bring objectivity" (2003, p. 50). As incorporated in a new version of the Combined Code (FRC, 2003), the recommendation became one of annual evaluations but the code itself did not mention external facilitation. A similar recommendation in the European Union followed (European Commission, 2005), which was echoed in a revision to the G20/OECD corporate governance principles (OECD, 2015). The UK provisions are subject to a "comply-or-explain" regime. Uptake was initially rather tentative (Grant Thornton, 2009).

That changed, however, after the financial crisis of 2007–2009, when one small UK bank was nationalised and two large banks part-nationalised. One, Royal Bank of Scotland, had transformed itself through aggressive acquisitions into the largest bank in the world (FSA, 2011). Policy responded with a new UK Corporate Governance Code (FRC, 2010) that urged annual evaluations of the boards of the largest 350 companies (FTSE350) and externally-led ones at least once every three years. Acceptance grew steadily (cf. Grant Thornton, 2011, 2016).

The UK policy caught the spirit of the time, and authorities in many jurisdictions put pressure on corporate boards to undertake some form of self-assessment or use external consultants to examine board performance. Nicholson, Kiel, and Tunny (2012) found wide institutional support in Asia, Europe and North America for board evaluation, mainly through codes of corporate governance. At the time of their data collection, the UK was the only country that specifically recommended external facilitation; this has now grown to more than 15 countries.

But policy may differ from practice. A recent study by proxy voting agency Minerva Analytics (2019) of governance disclosures in Europe illustrates much corporate attention to evaluating boards, but only modest uptake of the policy direction towards external facilitation. Self-evaluations fare better, though with reservations. A survey by the accountancy firm PricewaterhouseCoopers (PwC, 2014) found that 91% of directors felt their self-evaluation programmes were at least somewhat effective, but 70% said they had trouble being frank.

Board evaluation theory and evidence

The literature on board evaluation can be viewed as developing a variety of themes: the objectives of the exercise, the audiences addressed, the people and entities evaluated, the process of evaluation, the content evaluated, and who conducts the evaluation. The objectives might be internal, aiming at board effectiveness, or external, seeking legitimacy. Audiences would differ accordingly. Evaluations might be comprehensive, concerning the board as a whole, board committees, and individual directors, or be undertaken only selectively. They can range in process across a spectrum from the formal and systematic to the very informal. The content evaluated can be categorised as including board processes (including the process of evaluation itself) and the interpersonal relationships between directors. Importantly for our study, they can be conducted internally, often led by the chairman, or make use of external facilitation. A summary of the literature can be seen in Table 1.

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The policy direction has roots in widespread appreciation of the value generated through employee appraisal, and some of the frameworks and checklists used in practice draw ideas from employee performance appraisals (Spencer Stuart, 2017). But directors are not employees; they are elites who work together only episodically (Forbes & Milliken, 1999) and are – in the ideal of best practice – selected for independence of mind rather than compliance. Board evaluation processes may therefore lose the confidence of the directors themselves if, like employee appraisals, they come to be seen as instruments of discipline by external audiences. Groothuis (2011) notes that directors are often wary that external facilitators may not understand the complexities of the issues that boards face.

Early scholarly analysis came from Van der Walt and Ingley (2000), who sought to identify factors that contributed to the internal objective of board improvement as a step in building a model of board evaluation. Ingley and Van der Walt (2002) went on to identify the political aspects of board evaluation, including external reasons for why some boards undertook evaluations but also reasons for their resistance to evaluation processes. Among their concerns was a fear the process would upset the cohesion and trust needed for the board to function well.

Much of the literature is normative, often seeking to generalise from practice-led insights and discussing the tools and methods used. Summarising such articles, Minichilli, Gabrielsson, and Huse (2007) develop a schema for the evaluation process, including identifying four "building blocks" of a system, comprising: 1) what its content should be; 2) to whom it is addressed, that is, whether it is focused on internal improvements or had external audiences; 3) how the process unfolds in practical terms; and 4) who conducts the evaluation. This logical schema is helpful in suggesting ways practitioners can undertake the process, though it stops short of providing an evidence-base about the effectiveness of evaluation.

In their study of board effectiveness in small firms, Machold, Huse, Minichilli, and Nordqvist (2011) suggest that evaluations can be powerful tools for board development. But that is an assertion, not a direct outcome of their empirical work. Kiel and Nicholson (2005) also provide a practice-focused guide to board evaluation and a framework for doing it.

Concerning "who evaluates", Long (2006) draws on her experience in the practice board evaluation with major corporations to highlight how an outside facilitator can overcome the lack of professional knowledge in evaluations led by chairmen. In a recent conceptual study, Nordberg and Booth (2019b) link efforts aimed a board improvement to the ability of evaluators to observe skills and knowledge in action within the black box of the board. They contend that external facilitators may be able to fill a gap in understanding that cannot be deduced from externally available evidence on board composition and governance disclosures.

Nicholson et al. (2012, p. 288) note that a "major criticism of external reviews is that they rely on the published statements of companies". While some companies commission reviews from corporate governance ratings firms as "external" sources, our experience of the practice in the UK and places that followed its lead is that most consider external facilitation involving a consultant interviewing directors and observing meetings. Such interventions are costly but can elicit much sensitive, qualitative information.

The literature also gives anecdotal evidence of directors' scepticism about whether external facilitators have the insight necessary get behind the façades that directors and boards construct. In a provocative analysis, Wiersema and Zhang (2011) examine the disciplinary role that analyst interventions play in CEO dismissals to argue that investment analysts may be better evaluators than human resources specialists or board consultants.

Direct empirical work to date is limited, however. While a handful of studies examine board evaluation in narrow contexts, including sustainability actions (Aly & Mansour, 2017), family business (Vandebeek, Voordeckers, Lambrechts, & Huybrechts, 2016), or assessment of board committees (Martinov-Bennie, Soh, & Tweedie, 2015), none documents benefits and drawbacks of internally guided and externally facilitated evaluations.

In terms of outcomes, Dulewicz and Herbert (2008) undertook a survey involving 29 company secretaries from among the FTSE350, finding that the process can lead to significant changes of board personnel. Evaluations contributed to the resignation of directors in nearly a third of cases, while gaps identified influenced appointments of new directors even more frequently (cited in Nicholson et al., 2012).

In a multiple case study analysis, Rasmussen (2015) raises questions over whether board evaluation can measure the effectiveness. Her study shows evidence of the internal politics noted by Ingley and Van der Walt (2002) and Schaffer (2002) and calls attention to externally focused purposes of evaluation: While meant to enhance board accountability, evaluation can induce political behaviour.

The literature is largely silent on the circumstances under which evaluations take place. The policy initiative in the UK seeks annual evaluations and externally facilitated ones at least every three years. But that would seem to lead to a schedule unrelated to the circumstances of the company or decisions a board might face. Boards might schedule appraisals for quiet times, when challenge, heated debate, and the chance of dysfunctional behaviour are low. The literature also gives little insight about the conduct of evaluation – where it takes place, using what methods of data collection for which types of insights.

This review of the literature points, therefore, to questions that need to be addressed to achieve the evidence-base for appropriate corporate decisions about when, how and why to conduct appraisals. It also questions about how well-suited regulation and public policy recommendations are to the issues they seek to address. This study makes an inroad in these questions by exploring the experiences and attitudes of directors of a range of listed companies working in jurisdictions broadly under the umbrella of UK institutions and practices: Britain itself and the Channel Islands, where the authorities have been keen to press for high standards. We discuss the sample and other methodological considerations next before presenting the findings of this inquiry.

Methods

To uncover attitudes to these issues, our research involved a two-stage process. First, we identified individuals capable of providing insight into the processes of board evaluation, drawn mainly from existing relationships of the lead researcher with people serving on boards of companies in the UK and the British Channel Islands. This is a common method in exploratory, practice-oriented research (Silverman, 2017). We started from a sampling frame of directors who at the time of the research were currently or had recently engaged in board evaluations at five companies, exercises that the lead researcher had observed. This sampling frame meant that all those contacted had first-hand experience. The directors were sent a questionnaire concerning the range of their directorships and their experience in board evaluation, as well as to determine their willingness to engage in the research. From this process, we identified 17 individuals for the interview phase of the research. Collectively, these individuals held 50 directorships on listed company boards, either as chair, committee chair or non-executive director. In addition, they had served on boards of almost 200 more firms in a range of company-types, largely in fund management. Their board experience ranged from two years to 40 years.

They divided into two groups: those with experience of external facilitation of boards and those who had undergone only self-evaluation exercises. Of the 17 individuals, all had participated in annual self-evaluation process in varying forms; eight had experienced external evaluation and among them had undertaken 20 such exercises, three while serving as directors of companies in the FTSE350.

The second phase involved semi-structured interviews conducted by the lead researcher, ranging from 60 minutes to 90 minutes in length, using an initial instrument built upon the themes in the literature identified above. The interviews were recorded and transcribed for thematic analysis.

During the interviews, the lead researcher sought their opinions about their experience of board evaluation exercises generally, rather than about the specific instance they were then undertaking. This encouraged the individuals to discuss a wide range of practices from across all the organisations on whose boards they had served.

Because we take an exploratory approach, we followed the most salient issues for respondents, which were those arising from the policy context outlined above, as well as their experiences of the differences between self-evaluation and external facilitation in terms of process and outcomes, forming the three themes examined in the next section. Interviewees were encouraged to discuss the strengths and weaknesses of the processes of each self-evaluation and external evaluation. Where individuals had no direct experience of external evaluations, we nonetheless examined their attitudes towards the process, based on the view that as these contribute to an overall understanding of policy implementation. After iterative reading of the transcripts, sections of the texts were categorised as positive and negative attitudes towards both evaluation processes.

Coding involved descriptive terms drawn from the literature, including director attitudes towards a) the concept of and policy emphasis on board evaluation, b) the benefits and shortcomings of internally orchestrated and externally facilitated evaluations, and c) the outcomes of the processes. In a second iteration of analysis, we assessed another theme that emerged during the interviews: d) the frequency of evaluation.

In the interviews, they provided insights to their experience at companies bound by this aspect of the UK Corporate Governance Code (that is, FTSE350 companies) as well as smaller companies that faced no such obligation but had engaged voluntarily in the practice. That suggests that these companies engaged in board evaluations as a matter of good practice, which we interpret as a sign of the growing significance of the practice.

Findings

Central to issue of evaluation are attitudes towards the process and policy. We look at attitudes towards self-assessment and external facilitation, views of the outcomes and then the frequency of external evaluations.

Attitudes towards evaluation and policy

In general, the interviewees recognised the importance of board evaluation. A quotation reflects the view of several participants:

> Director 14: Reassessment is imperative.… If there isn't evaluation … then there's a risk you end up repeating mistakes or settling into bad habits and we know in business also that can result in the failure of the business especially at the board level.

The value placed on the option to undertake an evaluation with an external consultant was explained as:

> Director 6: The external board evaluator [is] there as an outside professional as you would use a lawyer or an accountant…. And it's good from time to time to have somebody say: "Well actually you could do a bit better if you did it that way." Everybody can improve.

Self-evaluation vs external facilitation

For the self-evaluations they were then undertaking, each board used a questionnaire covering a range of topics: board composition, meeting process, board information, training, board dynamics, accountability, and effectiveness, as well as an evaluation of the leadership qualities of the chair. The questionnaires asked directors to rate topics on a scale of one-to-three, with one signifying major improvement required and three no improvement necessary. For most questions, directors gave the highest score with no lowest scores given. Where directors thought some improvement was needed, they were asked to explain why.

Some of the directors worried, however, that use of a questionnaire format lead to responses that were less than open and honest:

> Director 5: You don't have to give sufficient justification for your reasoning in the scoring exercise, so you don't expose yourself to actually showing deficiencies … We've done our job, we can't be criticised too much, we're ok, we've thought about it, now move on.

> Director 6: [You] can have situations when people aren't particularly honest, and they want to duck the issue … [which can make self-evaluation] a complete waste of time.

> Director 10: Board members are not necessarily going to say precisely what they think.

This negative attitude towards honesty in the self-evaluation process was particularly associated with providing criticism of fellow directors: One of the directors explained it in these terms:

> Director 13: We tend to be defensive and we'll tend to … look for people to reinforce our own belief of our competence than actually criticise.

However, the directors said the key to good evaluations lay in open and honest responses and a serious approach to the process:

> Director 8: [Self-]evaluation has the capacity to be very helpful, but obviously it's very reliant on how seriously people take it.

> Director 11: [We need] a board that will say what it thinks as opposed to what it thinks it ought to say.

Where directors did not consider the self-evaluation process of benefit, it was mostly because they felt there were no issues with the board. One explained that:

> Director 10: It's a pain in the neck … If you have a board that works well together it's very easy to do, but it's always an additional burden on the board.

Where directors were engaged with the process, the predominant benefit was that of providing time to consider their contribution to the board, the use of their skills in the boardroom, to allow for board composition considerations with a balance of skills and knowledge and as a group the weaknesses and behaviour which needed improvement:

> Director 1: A board that conducts proper evaluation is more confident in its behaviour and in its discharging of its duties.

> Director 3: Without the process, you've got no way of formally identifying weaknesses.

The need for open and honest evaluation was acknowledged as existing not only for the improvement of the performance of the board and company but also at a personal level for the directors. Poor performance not identified through evaluation could ultimately lead to company failure or regulatory issues for which the individual board director would be culpable under their fiduciary duty:

> Director 8: Very few people see it as constructive, but the people who've looked at it as constructive tend to be a certain type of person who really understands the risk they're personally taking.

The directors suggested that to increase the value of self-evaluation, questionnaire needed to focus on company-specific attributes and events, as well as general questions.

The directors also suggested performance appraisal of the board from management and the company secretary, a variation on the 360-degree appraisals that became common in human resources management since the 1990s (Atwater & Waldman, 1998), though not without controversy (Waldman, Atwater, & Antonioni, 1998). Each of the boards in our study discussed the results of their self-evaluation in a boardroom setting with no others present other than the company secretary.

In all evaluation results, no criticism towards the performance of the board or chair was recorded, and in the open discussions no directors disclosed inter-relational dynamics, board culture, or environmental changes they deemed necessary. The reluctance to include any comments in the self-evaluations do not appear to be specific to the boardroom observations as part of the study, evidenced with:

> Director 9: These evaluations have not really resulted … in [a] change in behaviour, individually and collectively, but it should.

> Director 12: Bringing problems out into the open can be a double-edged sword. You can fix them sometimes, but you can also create animosity which doesn't go away.

Boardroom discussions focused on relationships external to the board itself, calling for information flow to be increased in relation to their oversight role, for example, to monitor the actions of the managers and to be kept up to date with regulatory changes. The chair or the company secretary agreed to implement the improvements required.

Self-evaluation was mainly valued as a tool for improvement. Where the directors that tended to consider that their self-assessment was working well or for a few where they felt they were experienced board members, little requirement for an external evaluator was seen:

> Director 3: When you've got the vast experience…it would be total overkill to do it.

They recognised that external evaluators can add value by obtaining in-depth opinions, more so than the self-evaluation:

> Director 5: [The external evaluator] might get down to the truth in more detail.

> Director 9: If we have a good questionnaire, and we have honest participants and constructive answers, as far as the exercise of asking the questions and getting the answers, internal or external doesn't make much difference … but where the external board evaluator can provide a more robust assessment would be where they might dig in a bit more.

Yet some stated that they would not want to speak openly with the evaluator about issues they see as appropriate only to the board or chair. Some said such issues should not have to wait until the next scheduled evaluation:

> Director 12: There are issues that I would rather bring up directly with the board and not involve a third party.

> Director 6: I think it'd be far more likely if there … were really bad dynamics … individuals involved would speak to the chair … rather than waiting for board evaluation.

In contrast, there may be issues that only can be discussed with an independent third party:

> Director 2: In the case of boards that may be dominated by one person … outside influence might be useful.

Although a few directors had no experience of external evaluation, they generally felt that they would be more open and honest with an external evaluator than they would in a self-evaluation questionnaire.

To obtain the honesty that a good evaluation requires, respondents said the external evaluator needs a) to be independent from the company under review, b) to be in possession of the necessary skills and experience to deem the results reliable, and c) to be trustworthy and discreet:

> Director 8: If there is any hint that they are not discreet then people are not going to speak to them openly and therefore the process won't be valuable.

The evaluator also needs to d) know how to deliver feedback to the board with a degree of diplomacy, whilst also e) possess the necessary influence and impact for the board members to respect their evaluation results. One director said the only way boards would respect outsiders' suggestions for changes in processes was if the evaluator acquired a status like that of a regulator:

> Director 14: They [the board] are top of the tree; who's going to have an impact and influence over the individuals on the board? In finance only the regulator can perform that.

One of the largest concerns was that the evaluator would not understand the company or the board's interpersonal dynamics; they might misinterpret one-off observation either in or outside the boardroom, or during interviews the evaluator conducted. One director explained the misinterpretation of social interaction as follows:

> Director 13: The reviewer came ... to the normal board dinner [and reported the board as] a bit too friendly [and queried] whether you could be confrontational with your fellow board members and also civil over a dinner table.

The directors also worried that the methodology they experienced, in which the evaluator observed only one board meeting, would not provide a true picture of board dynamics. The modification of behaviour that took place whilst being observed was explained as:

> Director 4: They [the other directors] felt they had to say something because they were being marked.

There may also be a possibility that the directors could be dominated and forced by the chair to perform for the evaluator, evidenced as:

> Director 14: Just before the [evaluator] was invited into the room, [the chair] says, Look, I'll say a few things and I'm this sort of person, I expect this, I don't expect this, and I just want to remind you …

Where they have been involved in external evaluation, the directors experienced positive consequences. They felt results of the external evaluation informed the next annual self-evaluation and improved the process. Also, the act of deciding to allow an external consultant to evaluate the board led to improvements in board processes ahead of beginning the evaluation:

> Director 4: [We] look at ourselves with our own self-evaluation and decide, do we think we could stand up to someone coming in and looking at us from the outside.

The substance of this quote points to the next issue of concern. If evaluations are not just window-dressing, that is, not just designed to comply with a reporting requirement, then what matters at least as much as process is the outcomes of evaluation, whichever process is used.

Outcomes of board evaluations

The directors generally saw benefits to external evaluation over self-evaluation. Those that had experienced the process felt the facilitator's detachment made comparison to other companies possible, and thus advice on best practice:

> Director 15: Evaluation adds enormous value because they can benchmark the board against other boards.

> Director 4: Someone else coming in with fresh eyes, fresh thoughts, whose seen other companies operating … can see that's pretty good but have you thought of …

Some experienced validation of the boards existing processes and performance which provide for increased confidence on the board:

> Director 6: It's not all criticism … It is an excellent exercise which can really show you that the board is being run properly, [and] that you are considering the right things.

Both groups of directors – those who had and had not been through the external evaluation process – placed greater value on the results of external evaluation than self-evaluation. They were not only the advice from an expert, but because the advice had been sought and being paid for, the recommendations would be acted upon:

> Director 7: If you have an external report the board has to do something about it because it is a formal document … you would take it more seriously … as a more balanced view.

> Director 15: If you're paying someone to provide a service then it focuses your mind on actually achieving something in return for that investment.

The directors wanted to receive in their reports from the external evaluator not only the results of the observation and the interviews but ideas on how to improve performance:

> Director 6: When it's an external evaluation, there could be a list of tasks that we should do.

> Director 10: If they can identify things that are missing and map against the [corporate governance] code and come up with proper suggestions, I think that can be quite helpful.

In contrast some felt the suggestions for improvement that had been received were not of significance, evidenced by this comment:

> Director 13: Didn't give us any concrete points to change the board, there were a few comments we took on board, but it really didn't help.

The directors saw benefits from employing an external evaluator if the evaluator had the considerable experience and approached the process to generate suggestions for change, at both the board and an individual level:

> Director 15: Are there behaviours that you as an individual are introducing … is the company successful despite your behaviour rather than because of it?

Frequency of reviews

In relation to the use of an external facilitator for board evaluation, directors were willing to extend the code's recommendation of external evaluators beyond the FTSE350:

> Director 17: [External evaluation is] a source of best practice that even smaller companies should aspire to, so on that basis I wouldn't see any reason to remove something just because the company isn't big enough for FTSE350.

The three-year frequency in the code was largely considered to be correct, even for smaller companies, though with some reservations:

> Director 14: Reassessment is imperative … if there isn't evaluation … then there's a risk you end up repeating mistakes or settling into bad habits and we know in business also that can result in the failure of the business especially at the board level.

> Director 14: If you're just in a constant cycle of … assessment … you'll never anything done.

However, there was a concern over cost to meet the code when the board considered the necessity as not there:

> Director 11: The question I have is whether or not the cost is justified. There is a view that it should be done every three and I've spoken to investors and they get quite upset of the fact. If they feel that the Board is doing a good job, why should they have to cough up anything from GBP10,000 to GBP15,000 every three years when they're totally happy.

The flexibility of the code provides the ability, where there were issues identified, to alter the frequency of external evaluation could be reconsidered and evaluations conducted more as needs dictated, rather than according to a fixed schedule:

> Director 17: When specific issues have been identified and there is room for improvement there shouldn't be any reason why there shouldn't be a follow-up with a further evaluation the next year.

But the frequency did need to be carefully considered and not just applied to meet the code with a suggestion that shareholders be invited to opine as to whether they would agree to the board being externally evaluated, which would allow for increased shareholder engagement and inversely shareholder accountability:

> Director 11: I wonder whether or not it would be appropriate if a circular to all investors was done prior to an external Board evaluation and the cost incurred?

Discussion

The literature suggests that directors were initially reluctant to recognise the importance of evaluation, even though it had been identified in policy post-Enron. Our inquiry, however, indicates that a decade after the onset of the financial crisis, and after even firmer policy direction, directors' attitudes have transformed. They accept that evaluations have an important role in enhancing board performance, with the indirect but important benefit of contributing to and ensuring company continuity beyond the current directors' tenure. Our research also validates an observation in Rebeiz (2016) that the benefits of evaluation depend on the commitment to the process by their fellow directors.

This acceptance could be attributable to two main factors: high profile corporate governance failures and longevity of implementation. In the 2008 failure of the UK banking group HBOS Plc, investigation by the regulator uncovered boardroom behavioural dynamics that demonstrated that boards' actions and behaviour can directly affect company performance (Bank of England, 2015). It is worth noting that our research found little evidence that behavioural dynamics are discussed during a board's self-evaluation process, but external evaluators were sensitive to them.

The second factor contributing to the attitude shift may be due to the longevity and frequency of the application of the requirements for evaluation under the UK code. The UK acceptance of evaluation is in contrast to a similar study of Norwegian corporate governance abiding companies by Rasmussen (2015), which may be attributable to the evaluation requirements of the Norwegian corporate governance code not specifying the frequency or necessity of annual or external evaluations. It would be interesting to examine attitudes of different boards abiding to different corporate governance codes with differing evaluation guidance to ascertain whether this link between requirements and acceptance is general and valid.

Our respondents' attitudes towards evaluation carried out by an external consultant seemed to be shifting; they acknowledge the importance of their role, but acceptance is not universal. Directors in our study remained reluctant to accept that outsiders could understand the specific boardroom environment and identify and make valid suggestions for improved board performance. There was agreement that greater acceptance of the professionalism of the sector would be obtained with a code of practice (Pitcher, 2014). Such a draft exists; however, there is no regulatory backing and accreditation of evaluation practitioners has not yet been achieved.

The research uncovered difficulties in the process of self-evaluation as well. These were identified as lack of defined purpose ahead of commencing the evaluation; inability to identify dysfunctional behavioural dynamics; lack of independence to remain impartial; reluctance to voice concerns; and an inability to assess against peers. These deficits mean the results of self-evaluation are not a true reflection of the board environment. Importantly, evaluation results were not acted upon and few suggestions for change were implemented.

Difficulties identified during self-evaluation may be overcome by employing an evaluation practitioner who has skills and experience an internal reviewer may not possess (Kiel & Nicholson, 2005). However, this study suggests that facilitators can contribute their own difficulties. Utilising an external evaluator brings a degree of independence and objectivity, but their work is still subjective and interpretivist, as in ethnographic research, and thus may face criticism from sceptical participants.

This study shows that the self-evaluation processes we examined did not involve statement of the initial purpose and extent of the evaluation, a starting point deemed in the literature to be relevant for validity (Minichilli et al., 2007). This contrasts with the examples of external evaluation our respondents described. As with other engagements of professional consultants, mandates given to external evaluators defined the purpose and extent of the exercise. Doing so provided relevancy to the results.

To overcome the difficulties in self-evaluation, the results suggest that external evaluators need to identify and classify behavioural dynamics, the decision-making culture (Bailey & Peck, 2013; Huse, 2005; Samra-Fredericks, 2000), group psychology processes (Merchant & Pick, 2010), and the emotional energies in the boardroom (Brundin & Nordqvist, 2008). These are factors not generally included in self-evaluation; and, as Bollich, Rogers, and Vazire (2015) explain, they are difficult to detect by those directly involved.

In our research, directors said they had received no individual feedback during self-evaluations of boards; in the cases of employee appraisals and group activities, the human resources literature shows such individual reflection leads to improved performance (Church, 1997; Duval & Lalwani, 1999; London, Larsen, & Thisted, 1999). Through interviews and boardroom observation, an external evaluator can build a picture of the current performance of a board and individual directors, and to provide feedback on issue that need to be addressed. The independence afforded to them ensures they are less inclined than in self-evaluation to perform errors of omission (Caputo & Dunning, 2005).

Evaluation results can form objectives for the following year (Conger, Finegold, & Lawler, 1998; Rasmussen, 2015). Our research discovered such objective-setting not always an outcome of the self-evaluation process, but it did where an external evaluation process had been undertaken. The evaluator can also assist the chair to facilitate the changes considered as necessary for a better functioning board, as part of the developmental function of evaluation (Rasmussen, 2015).

Our respondents suggested that neither internal nor external evaluation processes hold the board accountable for implementing the identified changes. Our findings also chime with research showing that board and group culture tends to come from the chair (McNulty, Pettigrew, Jobome, & Morris, 2011; Neubauer, 1997), and where change was needed, that directors would look to the chair for implementation (Leblanc, 2005; Reicher, Haslam, & Hopkins, 2005). This suggests that external facilitators can grow into somewhat larger roles, in acting as counsel to chairs, which can then enhance their understanding of the company and its special circumstances. With such increased involvement comes the risk they will gradually become insiders. If their role has the ability to effect change much in the way a regulator can, as Director 14 suggested, then increasing involvement in implementation might increase the risk of a new form of regulatory capture (cf. Baxter, 2011).

Should boards be given greater flexibility over the timing of board evaluations, even more than the comply-or-exchange regime permits? Doing so might make them less tied to the reporting and less hostage to the tick-box mentality (FRC, 2012) that has become attached to the UK Corporate Governance Code in general, and to similar regimes in other countries. This study suggests, however, that directors welcome the prescribed frequency of once every three years because it reduces subjectivity and helps them overcome the priorities of their chair, especially when a domineering character holds the role. This level of comfort of prescribed external evaluation extends to shareholders insofar as an account of the evaluation is published in the accounts, allowing the shareholders to look beyond the company results and into the workings of the board. Although not part of this study, current reporting on evaluation is generally considered very basic and further research into evaluation disclosure to shareholders and stakeholders could be undertaken.

Limitations and implications for research

This is a small study of boards of mainly smaller companies, which makes it difficult to generalise the findings across the wide range of companies now engaging in board evaluation. However, the nascent literature on this field needs studies like this to frame the issues, understand the attitudes of directors, and see how those attitudes develop as they become increasingly familiar with the task. These observations suggest a variety of avenues for future exploratory and confirmatory research to help us stay abreast of the evolving practice and to inform further public policy initiatives.

Because research into board evaluation is at an early stage, we still need to identify the right questions before we can develop theories to explain how the process works and how it differs, for example, from employee performance management or the psychology of workgroups and project teams. Our study has detected some of the practices, but its scale is too small to suggest we have any more than scratched the surface of the full variety of ways in which boards conduct such activities.

We have seen evidence of questionnaire-based information gathering, of interviews and board observations that feed into the evaluation. We have seen evidence of group meetings to discuss the outcomes, and we heard of findings left undiscussed and unacted upon. Practice-level research, examining the artefacts and rituals of board evaluation, would give us better insights into how the process embeds itself, and what leads the process towards successful discovery or down the path to stale routine.

The literature suggests board evaluation is seen as a powerful but neglected tool in the quest for improved board and firm performance. The literature we reviewed provides much advice about conducting board evaluations, but little evidence. And just as the links between effectiveness and performance are complex, as Forbes and Milliken (1999) and those that followed it have described, the links between evaluation and effectiveness need exploration as well, so we can understand what factors matter.

The study gives us some pointers, however. Many of the antecedents, process elements, and outcomes are coming to be understood, and enhanced disclosure is making data available to help assess, for example, the effort norms of boards and the balance of knowledge and skills on the boards. But the evaluation process, and the board evaluators themselves, gives insights into the interpersonal relations of directors, and to the characteristics of directors themselves, their traits and biases. For example, do directors exhibit the persuasiveness that Leblanc and Gillies (2005) associate with directors of successful boards, or the cultural intelligence (Earley, 2002) and sensitivity to other directors it seems to imply (Charas, 2015)? Understanding these factors might help boards and directors cope with the tensions between cognitive conflict and board cohesiveness that Forbes and Milliken (1999) highlight. It is difficult to gain access to study such matters in corporate boards, to be sure. Yet as a proxy for corporate boards, research might be conducted, confidentially and with great discretion, perhaps in public-sector boards, where a greater inclination towards openness to external scrutiny is likely.

Implications for practice and policy

Our study also has implications for the practice of boards and evaluators, and for policy and regulation. We spoke with directors of mainly small companies, smaller than those at whom the policy of external evaluation is directed. They generally found something valuable in the process, particularly when an external evaluator was present and when that person was sufficiently grounded in the company's business to understand the nuances. This suggests something about the character and skills needed by board evaluators. Given the direction of travel in policy, the number of board evaluators seems set to rise.

The knowledge and skills of evaluators that seem so valued now may already be rather scarce, suggesting a need to develop new greater capabilities of evaluators as well as more capacity for board evaluation. Anecdotal evidence suggests that many large company boards have resisted the entreaties of large management consultancies, accountancy firms, and headhunters to fill the gap, preferring instead the help of boutique board evaluation firms. The practices they follow are less than fully understood, so understanding their approach to evaluation as well as boards may be important. Some of the suggestions in this study point to a role for a professional body to certify evaluators and thus provide the trust identified directors require. This acceptance by boards of the experience and qualification of evaluators would then lead to acceptance of the evaluation results and implementation of improvement suggestions. In the meantime, even our modest study suggests a need for the professionalisation of practice, and with it some certification, if not perhaps standardisation.

There is a danger – evident in the literature as well as in the undercurrent of our directors' thinking – that the routinisation of board evaluation may induce what Westphal and Zajac

(1998) call the *symbolic management* in corporate relations with the shareholders, that is, the manipulation of compliance tasks and disclosure to misrepresent activities undertaken. Corporate governance ratings firms already target board evaluation reporting as an element in their compliance rankings. Such metrics have worked their way into the portfolio management exercises of asset management firms and into the interrogation of directors by investment analysts and those engaged in monitoring environmental, social, and governance (ESG) issues.

The impact for public accountability for private conversations looms large in this field, and we understand, as yet, so little about it. The chances for unintended consequences from policy decisions need careful thought. Would further disclosure on the inner workings of the board lead to smaller, currently out-of-scope firms choosing not to implement what is starting to be seen as best practice? And if so, would they be missing out on the opportunity to obtain professional advice as to become more effective decision-making groups?

Conclusions

Board evaluation is clearly gaining traction in the UK, as well as farther afield, as a policy direction is transformed into practice. It may not prove to be the elusive cure to the recurrent crises in corporate governance. After all, the spectacular and sudden insolvency of Carillion early in 2018 came just as the UK was adopting a new corporate governance code, with stronger provisions for board evaluation.

By exploring the attitudes of directors who have undertaken multiple board evaluations, this study makes two contributions to the nascent understanding of the practice of this important policy direction. First, our study shows acceptance that external evaluation of boards can add value. That acceptance is somewhat grudging, however, and is in evidence only when facilitators focus on the interpersonal dynamics often overlooked in questionnaire-based approaches to self-evaluations. This validates the policy direction in codes and listing rules to mandate at least occasional use of external facilitators in larger firms.

Second, acknowledgement by directors of companies not directly facing the institutional constraints and policy pressure, demonstrates that the practice is accelerating into arenas not envisaged in policy. It is worth noting that codes of practice for boards of UK unlisted companies, charities and even governmental bodies now recommendation board evaluation, including the use of external consultants. This suggests a need for professionalisation of service providers, and for research to better understand the overlaps, complementarities, and limitations of board self-evaluation and exercises facilitated by outsiders.

Further research is needed, therefore, to understand what parts of the process are largely independent of such industry- and firm-level knowledge to add value. Doing so would help practitioners develop the skills needed to meet the growing demand for external facilitation that seems inevitable from the policy direction. This study points us towards developing greater understanding of the interplay between the social characteristics of directors, the dynamics of the boardroom that result from them, and how those dynamics contribute to board effectiveness, that is, to open the black box a crack. Given the difficulties of conducting board research, the developing practice of board evaluation may shed light on that darkness.

Table 1 - Advantages, drawbacks of board evaluation (*empirical studies in italics*)

	Element	*Benefits*	*Drawbacks, sources of potential manipulation*
Objectives	Board development	*Formal CEO evaluation benefits director resource provision (Del Brio, Yoshikawa, Connelly, & Tan, 2013); board evaluation benefits strategy work (Machold et al., 2011; Schmidt & Brauer, 2006); in small firms monitoring as well (Nordqvist & Minichilli, 2009); "exemplar" evaluations show benefit in profits (Roy, 2015)* Addresses "elephant in the room" (Board & Adminstrator, 2013); assesses knowledge, skills of directors (Curtis, 2007); performance (Garratt, 1999); understanding individuals, group dynamics (Gordon, 2015); opens dialogue on strategy (Likierman, 2009); board evaluation as mechanism to examine "constructive" conflict, "interpersonal cohesion" (Sonnenfeld, 2002); benefits for board effectiveness (Stybel & Peabody, 2005)	*Formal CEO evaluation process not significant for director monitoring (Del Brio et al., 2013)* Board evaluation may be used to mechanism to squeeze out directors (Clarke & Klettner, 2010; Dulewicz & Herbert, 2008; Nicholson et al., 2012)
	Legitimacy	Signals commitment to shareholder value (Curtis, 2007); conformance (Garratt, 1999); benefits for external perceptions of board, favourable D&O insurance (Stybel & Peabody, 2005)	Risk of creating paper trail of deficiencies (Anderson, 2006); disclosures vague (Chioatto, 2015) Danger that search for legitimacy may reduce evaluation to administrative exercise, not opportunity for board improvement (Fenwick & Vermeulen, 2018)
Audiences	Internal	*Trustees (of non-profits) view benefits as board-internal, see little benefit for outsiders (Lichtsteiner & Lutz, 2012); evaluation viewed as having intrinsic value to directors, rather than value creation for firm (Rasmussen, 2015; Sponbergs, 2007)* *In family firms, formal board evaluation overcomes "fault-lines" becoming crises (Vandebeek et al., 2016)*	
	External	Consider non-traditional stakeholders, i.e., D&O insurers; also potential acquirers (Stybel & Peabody, 2005); think of regulators as audience (Leblanc, 2005)	

Who evaluates	Board internal	*Self-assessment brings benefits to board strategy work (Machold et al., 2011; Schmidt & Brauer, 2006)* *Chair-led evaluations commonplace (Brunzell, 2012)*; need for, issues in evaluation of chair (Neubauer, 1997); by lead non-executive director (Leblanc, 2005)	Self-assessments sometimes involve outsiders, blurring distinctions between the two forms (Kenny, 2016); internal assessment never sufficient (Spencer Stuart, 2017)
	External facilitator	Creates objectivity, open avenue to discuss interpersonal issues (Long, 2006);	Resistance to outsiders in boardroom (Copnell, 2010; Groothuis, 2011); objectivity requires professionalism of evaluators (ABExcellence, 2014; Pitcher, 2014)
Evaluation processes	Systematic	Formal tools ensure rigour, enhance accountability (Aly & Mansour, 2017); questionnaires can capture good view of inputs to board processes (Heracleous & Lan, 2002); contingencies can be addressed through examination of business environment (Conti, 2003; Van der Walt & Ingley, 2000)	*Director concern over "mindless checklists", "over-engineering" of process; concern over political aspects in "horizontal" (peer) evaluation as opposed to "vertical" appraisal of employees (Ingley & Van der Walt, 2002)* US-style rules-based approach perfunctory (Clarke & Klettner, 2010); paralysis by analysis (Gordon, 2015); form over substance (Kazanjian, 2000); risks unhelpful categorisation of directors (Jauncey & Moseley-Greatwich, 2007)
	Contingent	Structure, content of evaluation can be sensitive to contingencies in board structure, firm lifecycle, culture (Long, 2006); directors value flexibility (Clarke & Klettner, 2010)	
Content	Board processes	Focus of evaluation on activities and resources of the board, emphasising strategic role (Conger et al., 1998); inputs, including information; processes, including information management (Epstein & Roy, 2005)	

	Interpersonal	Board evaluation aimed principally as tool for board improvement might focus on cultural intelligence, group dynamics and director sensitivity as well as process (Nordberg & Booth, 2019b). *Interpersonal development viewed as prime benefit of evaluation process (Rasmussen, 2015)*	
Who is evaluated	Comprehensive	Evaluation can get to three levels: board, committees, directors (Daily & Dalton, 2003)	Lack of engagement threatens success of evaluation (Daily & Dalton, 2003)
	Selective	CEO evaluation different: consider 360-degree including external stakeholders (Epstein & Roy, 2005) *Audit committee evaluation results reveals lack of attention to skills development (Martinov-Bennie et al., 2015)* *Decision whether to evaluate CEO contingent on organisation circumstances (Young, Stedham, & Beekun, 2000)* Evaluation of chairs important, as leadership is crucial to board effectiveness (Neubauer, 1997)	Resistance to evaluation of individual directors (Clarke & Klettner, 2010)

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