# Evaluating board effectiveness: A review and framework for evaluation of corporate boards

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Abstract: Board evaluations have emerged as an important tool in public policy and corporate practice for enhancing board effectiveness. This paper reviews the extensive literature on effectiveness and the emerging literature on evaluation to understand how the divide between two purposes of evaluation – improving board performance and creating accountability – interact with the two main methods of evaluation – internal and externally facilitated. It also integrates the literature of effectiveness and evaluation into an analytic framework for board evaluation. We believe this tool will contribute theoretical understanding of boards and their work, provide insights for the practice of boards and evaluators, and help policy formation by pointing out the limitations as well as benefits of various policy options.

Keywords: Board evaluation, board effectiveness, corporate governance

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## Introduction

Since the early 2000s, and with greater force since the 2007-09 financial crisis, policy initiatives and shareholders in many countries have pressed the boards of companies to undertake regular, usually annual evaluations of their performance (Minichilli, Gabrielsson, & Huse, 2007). In places that followed the lead of the UK Corporate Governance Code (FRC, 2010), they have also demanded that boards use external facilitators to ensure greater objectivity in the process.

The push has met with considerable compliance (cf. Grant Thornton, 2011, 2016), but also with some push-back. Practitioner accounts suggest resistance, acquiescence, but also enthusiasm for a process traditionally associated with staff development and discipline rather than those in the upper echelons. This activity has also attracted small but growing research efforts concerning the purposes and practices of board evaluation. Scholars including Kiel and Nicholson (2005) see multiple benefits from conducting board evaluations, which can be categorised in two broad streams: external focused ones, aiming at enhancing accountability; and internal ones, aimed improvements to the operation of the board and its impact on the company's operational and financial performance.

The latter set of reasons relate to another, important stream of the corporate governance literature, more highly developed but with important aspects still contested: board effectiveness. Since the seminal paper by Forbes and Milliken (1999), many efforts have sought to identify the characteristics of both boards and directors and the processes through which they contribute to firm performance. Few studies have explored how the differing conceptualisations of board effectiveness map against the purposes and processes of board evaluation. Indeed, a recent paper asks a question pointing to its negative if nuanced answer, "Do board evaluations measure board effectiveness?" (Rasmussen, 2015).

Drawing on a nascent literature, this paper seeks to address a related question: How do board evaluations in various forms address the need to improve board effectiveness? It reviews the literatures of both board effectiveness and board evaluation to articulate their assumptions and points of contention. It seeks to establish connections between them and in so doing identifies points of pressure that may be better addressed by one or another method and process of board evaluation. In modelling the issues, it proposes a framework to structure the growing research interest in board evaluation.

We believe this framework can guide the work of people engaged in board evaluations and boards who commission their work. For policy, the framework highlights a need for research concerning the degree of prescription that guidelines on board evaluation make before we have much evidence of whether the benefits outweigh any unintended consequences.

The balance of this paper is organised as follows. In the next section we provide an overview of the work of board and the policy environment that has led to institutionalisation of board evaluations to frame the issues and highlight points of contention. After a discussion of the methods used to conduct the review, we examine how practitioners discuss board effectiveness and how scholars have attempted to conceptualise it since Forbes and Milliken (1999). We then explore the emerging literature on board evaluation. Integrating the two, the paper develops a revised model of board effectiveness, highlighting areas of particular concern for board evaluation processes, including ones the literature suggests would be better addressed by external facilitators. This model leads to development of a research agenda and a discussion of practice and policy implications. We conclude with observations about factors that practitioners, boards and facilitators, might consider in designing evaluation exercises.

## Boards and the policy environment

Repeated corporate governance crises around the world have often been attributed to failings of boards of directors (Deakin & Konzelmann, 2004; du Plessis, 2008; Kirkpatrick, 2009; Lockhart, 2010; Petrovic, 2008; Turnbull & Pirson, 2012). These problems have led to changes in law, regulation and self-regulation through codes of conduct. The complexities of large businesses and the peculiarities of individual businesses and their commercial environments have made regulators reluctant to rely heavily on mandatory controls, favouring instead guidelines that leave much discretion to the companies' own boards of directors.

In so doing, however, policy has directed increasing attention to guidelines about how boards know whether they are using that discretion appropriately. Especially since the collapse of Enron and many other large enterprises in the early 2000s, and then after the global financial crisis in 2007-09, that attention has focused on the process of board evaluation, and with growing emphasis on evaluations conducted by neutral, external examiners.

These policy initiatives have been faced with scepticism and resistance. Board deliberations are both sensitive and private, which raises questions about whether outsiders should be inside the process and what value they could add. But boards are also populated by people with strong wills and self-assurance, more accustomed to giving appraisals than receiving them. That raises questions about how receptive they would be to recommendations of an external facilitator.

Concern arose initially in the 1990s alongside a new empirical focus on what happens inside boards (Pettigrew & McNulty, 1995, 1998) and theoretically on what constitutes board effectiveness (Forbes & Milliken, 1999; Warther, 1998). Interest in normative approaches intensified when public policy focused on board evaluation in the aftermath of what MacAvoy and Millstein (2003) called the recurrent crisis in corporate governance in the early 2000s, and in particular in the UK (Long, 2006).

Given the limitations of law, regulation and codes, a shift in behaviour was needed. As boards of directors set the "tone from the top", having boards undergo regular performance appraisals could instil greater thoughtfulness that could lead to a change in board culture (Ingley & van der Walt, 2002; Long, 2006; Minichilli et al., 2007). In Canada, the Toronto Stock Exchange urged evaluations of the CEO, directors and the board as a whole as early as 1994 (Cadbury, 1999).

This stream of thinking has become a feature of corporate governance regimes in many countries and informed codes for unlisted companies, partnerships and public sector organisations. It emanated as policy in the UK: The theme arose during consultations leading to development of the Cadbury Code (1992), and turned into a formal recommendation that all boards of major listed companies "should undertake a formal and rigorous annual evaluation of its own performance and that of its committees and individual directors" (FRC, 2003, Principle A.6). That version of what had come to be called the "Combined Code" was informed by a government-sponsored review of non-executive directors (Higgs, 2003), which urged use of an external party to conduct board evaluations.

Following the financial crisis of 2007-09, the drafting of the renamed UK Corporate Governance Code (FRC, 2010) formalised the Higgs advice into a recommendation that annual boards evaluations should be facilitated by external consultants at least every three years. The code applies only to the larger companies listed on the London Stock Exchange, but it was used as a model for a new codes used in many different settings, for listed companies in other countries, and for different types of unlisted businesses and corporate subsidiaries in the UK.

The theme has also been developed in UK regulatory reports, such as guidance on board effectiveness (FRC, 2011); the failure of HBOS (Bank of England, 2015), and corporate culture and boards (FRC, 2016), which cited behavioural dynamics at board level as an important influence on board effectiveness. These reports see a moderating effect of periodic assessment as mitigating poor board performance that can lead to firm and market failure.

Board evaluation is seen in policy as a mechanism to assess the effectiveness of board and a way of looking at performance that acknowledges the confidentiality of board proceedings and the complexities of the issues require that boards enjoy a high degree of discretion in their decision-making. After describing the methods used in our review, we consider the dynamics of boards and view of what constitutes effectiveness and what we currently understand about processes of evaluation.

## Methods

We used a variety of methods to explore each literature, starting with some general reading around the themes, and more focused examinations of topics that arose from it. We then undertook structured searches of the literatures of both effectiveness and evaluations, identifying the overlaps between them. We drew initially upon the EBSCO database and then for tighter coverage and to focus specifically on scholarly publications we used Scopus. We filtered for business and management to provide the definitive lists, with searches that involved content for titles, abstracts and keywords.

With those items selected, we first examined the titles and abstracts to eliminate items where the central theme of the papers was out of our scope or where the papers focused on a narrow or normative application of the concepts to a specific domain (e.g. boards of health care agencies or organisations).

The literature on board effectiveness is considerable and diverse and the expression itself is well established in the literature as a keyword or term of reference. The Scopus search for “board effectiveness” yielded 157 papers between 1987 and the end of 2016, 150 of them since Forbes and Milliken (1999). This sample contains theoretical analyses and empirical evidence, practitioner testimony and normative statements based on policy recommendations and experience. Of them 53 had the string “effectiv” in the title and another 23 in which the title raised issues that might concern effectiveness (e.g. “financing decisions as a source of conflict”).

As noted above, research into board evaluation is nascent. A search in Scopus for “board evaluation” in titles, abstracts and keywords and limited to business and management literature and running until the end of 2016 yielded 33 items, the first in 1997. Two were notes about conference presentations, and only 17 had board evaluation itself as their focus. A search for “board assessment” OR “board appraisal” yielded another three. A wider search for “board AND evaluat” but limited by “corporate governance” yielded 86 articles, only 13 of which directly concerned board evaluation, all represented in the earlier searches. Items that appeared on both lists (effectiveness AND evaluation) totalled 24, of which 16 were directly related to our inquiry and all represented in earlier searches.

We supplemented these with some practitioner analyses from accountancy, consulting and search-and-selection firms. We also paid particular attention to a book chapter (Nicholson, Kiel, & Tunny, 2012), which examined works theorising of board process and effectiveness in building its survey of board evaluation. We then reviewed in outline the 76 items on from the board effectiveness search, paying particular attention to ones that theorised the concept or sought to identify its components. Finally, we focused attention on the 17 papers concentrating of board evaluation, and related material.

## Board effectiveness

Boards are workgroups, but the nature of their work differs from that of operational groups. In theorising board cognition and effectiveness, Forbes and Milliken (1999, p. 492) write that boards differ from conventional groups in that they are “large, elite, and episodic decision-making groups that face complex tasks pertaining to strategic-issue processing”. Their size (typically a dozen or more) is larger than operational workgroups. Their episodic engagement owes in part to the presence of outside, or “non-executive” directors, who serve the company only part-time, and may therefore show less than full commitment to the group. Their elite make-up holds both the promise and threat associated with strong individuality. The size and individuality increase the inputs to complex decisions but constrain the ability to reach consensus. And because the issues they debate are strategic, affecting firm performance, their decisions can have a great impact.

Moreover, boards occupy liminal spaces (Concannon & Nordberg, 2015), where hierarchy is (notionally) suspended and participants are (legally) equal. Moreover directors, and especially the non-executives common in the UK, perform two distinct and at times contradictory roles: *service*, in which they provide advice and counsel to management; and *control*, in which they supervise and discipline management, including those senior managers who are themselves directors (Desender, Aguilera, Crespi, & García-Cestona, 2013; Krause, Semadeni, & Cannella, 2013; Napoli, 2012).

These different roles involve directors adopting multiple identities, which may at times conflict (Hillman, Nicholson, & Shropshire, 2008). The “outside” non-executives become insiders, and the “inside” executives to step outside of their roles as managers. This role ambiguity, therefore, creates the liminality in which creativity can develop, but only by suspending the hierarchy conventionally used in discipline, thus differentiating the assessment of boards compared with other workgroups.

This is not to say that boards are theoretically or empirically without hierarchy. But since Cadbury (1992), policy in the UK and in the many jurisdictions that have followed its lead, has sought to separate the role of chairman from CEO to counter the power of the CEO in the boardroom. Other policy moves, in particular since the crises in the early 2000s, have further eroded or even reversed the hierarchy by enhancing the role of independent non-executive directors both in their proportion on boards and in their control of key board committees and functions.

The distinctions between boards and conventional workgroups have implications for the dynamics of the interaction of their members and the processes they use. To understand that let us consider four theorised models of board effectiveness from Forbes and Milliken (1999); Nicholson and Kiel (2004), Leblanc and Gillies (2005), and Charas (2015) and related studies. An overview of their themes appears in Table 1.

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Forbes and Milliken (1999) identify key processes of corporate boards, including their effort norms and how they use the knowledge and skills available in the group. These are arguably quite similar to working in any group setting. The third element of board processes in Forbes and Milliken (1999), however, is more complex. The “cognitive conflict” they see as vital to challenging the view of senior managers and in particular the chief executive, even though it threatens cohesiveness. And cohesiveness is double-edged. They posit and invested U relationship with task performance; as boards grow in cohesiveness they can because too cosy for effective challenge to take place. This complex relationship is echoed in the later scholarship of Levrau and van den Berghe (2007), who work in the setting of mainly continental European boards, mainly with non-executive supervisory boards.

One benefit of the approach in Forbes and Milliken (1999) is that it seeks to identify elements that can either be verified externally or where suitable proxies have or could be developed. Board demography and the mix of knowledge and skills on the board yield information that is likely to affect the "black box" of board processes, which are difficult to observe. Effort norms can be estimated by the increasingly common corporate reporting of attendance at board and committee meetings. But such measures leave out two types of elements that have been prominent in policy and in the literature: board structures and the social characteristics of directors.

Policy approaches in many countries have adopted structural mechanisms to strengthen particularly the monitoring role of boards, often with directives for corporate disclosure. Zahra and Pearce (1989) note the importance of structures in shaping the work of boards, while a historical view by Nordberg and McNulty (2013) shows its centrality in the development of the Cadbury Code (1992) in the UK.

Structural mechanisms include elements such as the balance of executive and non-executives directors, often called board independence (Bhagat & Black, 2002; Chen, 2011; Johanson & Østergren, 2010); CEO duality (Krause, Semadeni, & Cannella, 2014); and the use and composition of board committees, for audit, remuneration, nominations or other purposes (ISG, 2017; Montagnon, 2016). McNulty, Florackis, and Ormrod (2012) extend the Forbes and Milliken (1999) model in considering the interplay of board structures with processes among financial institutions coping with the effects of the financial crisis. Such structures feature prominently in policy prescriptions for corporate governance as well as practice and theorising about it.

In assessing board effectiveness, other scholars warn of the limitations of relying on structures and board composition elements in understanding effectiveness of boards (e.g. Roberts, 2002) and call attention to the social skills of directors as being of particular importance. Johnson, Schnatterly, and Hill (2013) call for more attention in research to human and social capital of directors as determinants of board effectiveness. Kim and Cannella (2008), for example, suggest that social capital is an important factor in director selection as it contributes to later board effectiveness. These are elements that are much more difficult to assess with publicly disclosed information.

In their study of mainly Canadian boards, Leblanc and Gillies (2005) find that director effectiveness, defined as the ability of directors to influence outcomes, can be traced to three factors: their persuasiveness, the predictability of a director's dissent and consensus, and whether a director's orientation was individualistic or collectivist. Of these, persuasiveness is "by far the most important" (Leblanc & Gillies, 2005, p. 162), with non-persuasive ones seen by peers as "lone wolves" and "disagreeable". Moreover, what they call functional directors (i.e. those who contributed to decision-making) all rank high in persuasiveness, but might rank high or low in the other categories of behaviour. Effective boards have a mix of dissent and consensus, and directors might be individualistic and suppressed collective interests. Read against the Forbes and Milliken (1999) framework, persuasiveness is a director characteristic that can help to overcome scepticism and build trust, thus reinforcing cohesiveness when challenged by cognitive conflict.

Nicholson and Kiel (2004) offer a construct called "board intellectual capital", a composite of board- and director-level factors, as contributing to effective decision-making. The board's social and structural capital derives from human and social capital of the individual directors, and the cultural capital of those directors arising from their identification with the values and norms of the group. Like Leblanc and Gillies (2005), they focus attention on social interactions as central to board dynamics.

With similar intent, Charas (2015) posits that the “cultural intelligence” of directors plays an important role in board effectiveness, alongside demographic factors and the presence of knowledge and skills noted in Forbes and Milliken (1999). Her work draws upon Earley and Mosakowski (2004a), who theorised in the context of cross-border management that cultural intelligence seeks context-specific relationships involving cognition (“head”), energy (“heart”) and action (“body”) to develop and express sensitivity to the dynamics of workgroups. It reflects “how able people are to empathize, work with, direct, and interact with other people” (Earley & Mosakowski, 2004b, p. 154). Cultural intelligence thus facilitates changes in behaviour owing to situational complexity (Triandis, 2006).

Translated into the setting of boards, this characteristic of directors would seem to increase their ability to cope with the tensions between cognitive conflict and board cohesiveness. It helps, therefore, in judging how to prevent cohesiveness tipping into groupthink and to prevent cognitive conflict engendering affective conflict.

Cultural intelligence involves characteristics of directors that contribute to board processes. Persuasiveness as well as the less important behavioural orientations in Leblanc and Gillies (2005) are also characteristics of directors. But they would seem to be aided by the presence of cultural intelligence and its sensitivity to others (see Figure 1), and be seen only through interaction. The social and cultural capital of directors in Nicholson and Kiel (2004) can also be read as facets of cultural intelligence.

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This points us towards a relationship, under-articulated in the Forbes and Milliken (1999) model, in which director characteristics influence effort norms, cognitive conflict and board cohesiveness, and perhaps the degree to which they use their knowledge and skills.

Forbes and Milliken (1999) see the relationship between conflict and cohesion and central to board effectiveness. But cognitive conflict works against the cohesiveness needed to keep their often large, elite and episodic membership headed towards a decision. Board cohesiveness and cognitive conflict conspire to undermine, in opposite directions, the conditions of simultaneous trust and scepticism that conventionally make possible the practice of peer evaluation.

Recent empirical evidence suggests that boards develop coping routines to overcome the tension between their service and control functions (Nicholson, Pugliese, & Bezemer, 2017), which are influenced by cognitive conflict and cohesiveness Forbes and Milliken (1999). In a rare study analysing video evidence of board deliberations, Nicholson et al. (2017) found directors engaged in “systematic and routine behaviours that initially appear paradoxical”.

Cultural intelligence, persuasiveness and the development of coping routines are characteristics and behaviour that are difficult to assess through public disclosure. They form pressure points that would seem to affect the processes of effort levels, boardroom challenge and the delivery of skills and knowledge central to board effectiveness. Doing so is difficult, however, without the ability of observe the board in action, of which the study by Nicholson et al. (2017) is a very rare example. From practical and policy perspectives, difficulties in gaining access place the onus on board evaluation.

## Evaluating boards

According to Kiel and Nicholson (2005), the questions arising in board evaluation include: the objectives of the exercise; who will be evaluated (the unit or units of analysis, in effect: the board as a unit, individual directors, the chairman, the committees); what subjects/aspects of board performance; whose views will be sought; using which techniques; what use will be made of the results; and who will do the evaluation. (For an overview of the literature see Table 2.) With recent concern in policy on the impact of internal versus external evaluation; we focus now on two of these: the uses of results, and who will do the evaluation.

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***Uses of board evaluation***

The literature suggests two broad categories of uses of the outcomes of the evaluation, a) those internal to the board and aimed at improving effectiveness, and b) compliance with external expectations. Fetterman (2001) argues that the evaluator's role is to develop, refine and improve those being evaluated. Evaluators can transform the relationship from judging performance to collaborating in its improvement. Long (2006), a specialist in board reviews, also argues that evaluation for internal purposes can encourage teamwork and improve leadership. That is, the experience of the evaluation itself contributes to directors' identification with the board and the company, contributing to cohesiveness. If done candidly, this outcome suggests that the evaluation process can encourage challenge in the boardroom (cognitive conflict) while simultaneously building closeness of the board (cohesiveness).

There is, however, a narrower and "symbolic" use, in the sense of the symbolic management that Westphal and Zajac (1998) see in cynical uses of compliance with "good" corporate governance precepts to reduce pressure from shareholders. The recent requirement for reporting about board evaluations, and about the use of external evaluators, risks adding another box to tick, a practice regulators decry (e.g. FRC, 2015).

The nascent empirical literature supports the contention that evaluation can change board dynamics. A quantitative study analysed survey data from company secretaries of 29 UK listed companies concerning whether and if what form evaluations took place and with want consequences (Dulewicz & Herbert, 2008). It found, among other things, that evaluations led to the decision of a director to resign in a third of the cases of resignation (cited in Nicholson et al., 2012). The limited sample size raises questions about how to interpret the responses.

In a study of board dynamics, Vandebeek, Voordeckers, Lambrechts, and Huybrechts (2016) viewed board evaluations as moderating the negative effect of the faultline between family/non-family directors on performance of Belgian family-controlled firms. They saw evaluations helping to erode hierarchy and heighten simultaneously challenge and cohesiveness.

Martinov-Bennie, Soh, and Tweedie (2015) explored the evaluation of audit committees in large Australian companies, identifying a need for a nuanced understanding of members and their dynamics, instead of simple tests of independence. It points more generally to a view that in assessing board performance, externally verifiable data about board composition and structure are poor substitutes for observing the inner workings of a board.

But this is not the only possible outcome. A questionnaire-and-interview study of boards of Norwegian listed companies found that directors saw evaluation serving hygienic purposes (i.e. conforming to the context of demands for board evaluation) more than contributing to the content of board deliberations or enhancing board performance (Rasmussen, 2015). This suggests that directors may see evaluations as serving dominantly cosmetic goals, irrespective of the processes involved or who evaluates the board.

### *Who evaluates*

Boards sit at the top of corporate hierarchies, after which there is no point of appeal. As board evaluation was beginning to emerge as a corporate governance imperative, Conger, Finegold, and Lawler (1998) observed: “The most obvious impediment to periodic board evaluations is that no one can perform them but the board itself.” As discussed above, however, this assertion has been overtaken by events, including the Higgs Review (2003) and its ripple effect in countries other than the UK.

Academic and practitioner literature provides some guidance. Huse (2005) suggests that to understand board behaviour, board processes need to be observed and assessed to be able to explain the nature of interactions, influencing forces and formal and informal structures including leadership and the decision-making culture. Those evaluating should be cognisant of the decision-making environment and influences on the company and the board (Chioatto, 2015). Knowing which issues need to be tackled will help determine whether the board will benefit from internal or external evaluation. Ingley and van der Walt (2002) discuss the discomfort directors feel about evaluation and the politics of horizontal as opposed to vertical appraisal.

Both Kiel and Nicholson (2005) and Minichilli et al. (2007) identify a range of options, from the chairman conducting evaluations, to board committees, to a lead non-executive director, to general advisers (e.g. professional services firms) or specialists (e.g. board evaluation firms). We focus here on the three categories that embrace the others: chair evaluation, internal and collective self-evaluation, and externally facilitated evaluation.

**Internal self-evaluation.** Minichilli et al. (2007) view self-evaluation as a valuable tool for improvement as it provides prescribed time and space for self-reflection on board processes and internal culture, such as decision-making, trust, emotions and board interactions (Minichilli et al., 2007). Boards need to measure individual director and group competencies (Cascio, 2004), supplemented by upward feedback and peer review (Garratt, 1999). The ability to be open with feelings during the self-evaluation of the board and its members is provided through confidentiality (Minichilli et al., 2007); however internal evaluation prevents openness and is a barrier to revealing problematic aspects of the board dynamics (Ungureanu, 2013).

Internal evaluation removes concerns of confidentiality (Rasmussen, 2015). Kiel and Nicholson (2005) argue that individual evaluation provides for “open and honest feedback”; however practitioner observation advises that with established trust “confidential third-party interviews with each director produced candid, positive and self-critical results” (Kenny, 2016, p. 9).

Writing in a general context of personal psychology, Billow (2011) says that self-awareness remains tentative, uncertain and evolving, however; self-knowledge revises itself constantly due to stimuli from the environment but remains subjective. Carson and Langer (2006) advise that achievement of mindfulness of the self plays an important role in adaptability to both environment and context to understanding differing perspectives. In addition, awareness of the impact and influence an individual can have on others is a critical component to effective leadership of groups (Taylor, 2010).

**External evaluation and evaluators.** Practitioner articles, theorists and policy directives assert that effective evaluation of behaviour requires an external view (e.g. Pitcher, 2014). With outside experts who have no vested interest but understand behavioural and group issues, assumptions of monolithic behaviour in group decision-making are removed (Schwartz-Ziv & Weisbach, 2013), which can help in recognising dysfunctional group dynamics (Conger et al., 1998). Inviting the evaluator to attend meetings on a regular basis can prevent groupthink (Bernthal & Insko, 1993). External evaluation can reduce subjectivity and possible self-interest present in self-evaluations, thus, the benefit of an external evaluator is that they can provide impartiality (Conger et al., 1998). According to Machold and Farquhar (2013, p. 161),“an “informed outsider” could challenge “deep-routed beliefs” of board members and offered “opportunities for reflection to both the researchers and the board members”.

But the process has drawbacks as well. Minichilli et al. (2007, p. 618) note that “few boards have traditionally been willing to accept an external evaluator present during their discussions”. However, it seems likely that in the decade since then, with the financial crisis and increased pressure for scrutiny, behaviour and perhaps attitudes have changed. More importantly, there is a danger boards or individual directors may react to observation by changing behaviour, throwing the validity of the evaluation into doubt.

What overcomes objections to external evaluation is motivation. Kiel and Nicholson (2005) argue that a desire within the board for greater transparency and accountability increases willingness to undertake external assistance. Minichilli et al. (2007) see stronger motivation when a greater understanding of the workings of the group is required.

Writing in the context of general, rather than board-specific evaluation, Ensminger, Kallemeyn, Rempert, Wade, and Polanin (2015) suggest that the role of evaluator resembles that of a coach, whose aim is to develop and provide guidance on achieving the participants’ optimum performance from their abilities, a view that has practitioner support (Independent Audit, 2016).

What an external evaluator may not be told during the interviews or observe during the boardroom sessions is the political behaviour that only the directors will be aware of as it takes place outside of the boardroom. Bailey and Peck (2013) suggest that political behaviour, such as lobbying and behind the scenes coalition-building, influences the boardroom dynamics. That can influence board decision-making, which is “contingent upon the relative power and relationships among various coalitions of internal and external actors” (van Ees, Gabrielsson, & Huse, 2009, p. 315). An evaluator needs to be alert to politics within the group and the history of the dynamics informing the relevant relationships. While such insights do not require an external evaluator, internal methods of conducting evaluations provide little assurance of a freedom from politics.

**Evaluation by chair – a hybrid model?** Practitioner accounts suggest that a common method of board evaluation is for the chairman to evaluate personally the performance of directors, committees and the board as a whole. We have found no study that focuses on this approach specifically, but the practice arguably combines the confidentiality of internal evaluation with some degree of the distance provided by external facilitators. It could as easily lack the objectivity, be subject to the politics, and damage the already tense relationship between boardroom challenge and the sense of common purpose.

Normative writers have suggested that a lead non-executive director or combination of directors might take responsibility for evaluating the chair (cf. Neubauer, 1997). But that raises uncomfortable questions of who evaluates the evaluator (Pitcher, 2014), with its echoes of the age-old problem in life (Juvenal, 1999) as well as corporate governance (Williams, 1999): who guards the guardians? Board evaluation by the chair might then prove less a hybrid solution and more a different version of the same problem. This study does not address that question directly, though we are cognisant that wide use of this approach makes it a matter of importance. We return to it in our discussion and recommendations for research.

### *A framework for board evaluation*

The discussion of board effectiveness and the purposes and methods of board evaluation help to identify certain pressure points in evaluation (Figure 2), by which we mean the factors and relationships between them where in-person evaluation, and more specifically evaluation through external facilitation, are likely to be most beneficial. In particular, it seems important to evaluate whether directors have the cultural intelligence, that is, the sensitivity to others, to adapt their behaviour when cognitive conflict threatens board cohesiveness. Similarly, evaluations should look for signs of the absence of persuasiveness, which can increase tensions and undermine cohesiveness leading to dysfunctional behaviour that might translate cognitive conflict into affective conflict.

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**What and how to evaluate.** Corporate disclosures provide growing information about boards and their processes. We know a lot about not just about board demography and structures, but also about the effort norms they observe. Assessing the social capital of directors may be possible to an extent from the outside, as studies of director connectedness on board interlocks and social networks have shown. But insofar as social capital involves the interpersonal relations on the board, which lead to cognitive conflict and board cohesiveness, the proxies used in such outside methods would seem to be of little use.

Showing how these attributes contribute to the cultural intelligence (Charas, 2015; Earley & Mosakowski, 2004a; Triandis, 2006) or the persuasiveness seen by Leblanc and Gillies (2005) needs to be judged directly, either through observation or access to assessments conducted with individual directors. Such personal characteristics may be difficult to judge in either peer-based evaluations or those using the board chairman as the evaluator. It would seem to be even more difficult to discuss the results without the ability to utilise the impartiality of the external evaluator.

The literature further suggests that how these director social characteristics relate to board processes and in particular the processes of cognitive conflict and use of knowledge and skills in the Forbes and Milliken (1999) model are crucial to board evaluation. Doing so seems to point not just to external evaluation but also more ethnographic approaches of board observation, such as used in the research by Samra-Fredericks (2000), whether working regularly within the boardroom as a trusted outsider or in one-off exercises along the lines conducted by Nicholson et al. (2017).

Similarly how director social characteristics play into board cohesiveness and into the difficult relationship between cohesiveness and cognitive conflict argues for external evaluation. While a skilled chairman, whose persuasiveness (Leblanc & Gillies, 2005) signals sensitivity to the social setting of the board, the chair is still involved in the decision process. Evaluating those tense situations would be difficult.

**When to evaluate.** As we have seen, the policy environment in many countries is pressing for regular board evaluations, generally annually, and for externally facilitated ones perhaps less frequently, such as the three-yearly ones prescribed in guidance to larger companies operating under the UK Corporate Governance Code. By their regularity such periodic recommendations seem to satisfy the need for compliance and external accountability. But as the discussion above has indicated, the value of compliance-oriented evaluation may lead to symbolic management and discourage having external evaluators present at the time when important decisions are on the board’s agenda.

One of the issues this review raises is therefore whether boards might be better advised to conduct evaluations not so much periodically, but when serious issues feature prominently. Boards might well feel it a distraction to have an extra body in the room during the most sensitive decision-making, however well trusted that person might be. But learning about the sources of conflict, whether cognitive or affective in nature, and what issues excessive cohesiveness brings would be better observed and managed in a setting of important decisions. Mellahi (2005) found that behavioural dynamics was an influencing factor in the decision-making leading up to the failure of Australian firm HIH. Therefore, research might help us learn whether evaluations undertaken in the moderate heat of important decisions can improve later outcomes when existential issues arise.

## Synthesis and research directions

Synthesising these views, we can set the two purposes of board evaluation (external accountability and internal improvement) against the two principal methods of evaluation (internally conducted and externally facilitated). The practitioner and theoretical literature suggests that internally conducted evaluations, gathering of basic information can facilitate externally focused accountability and compliance, while externally facilitated evaluations can accelerate internal improvements when combined with trust in the process. Each focuses on different factors identified as contributing to board effectiveness (see Table 3).

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### *A research agenda for board improvement*

As we have discussed, the limited literature on board evaluation suggests that internal, self-evaluation takes different forms, including self- and peer-assessment or evaluation conducted by the chairman. External evaluation holds the promise of greater objectivity but with risks. But the absence of evidence and the importance of board improvement motivating board evaluation points to a need for more systematic research.

**Internal evaluation.** The literature reviewed here suggests internal evaluation can help in diagnosing problems building in the difficult relationship between cognitive conflict and board cohesiveness and in particular for assessing reasons for deficits in the use of knowledge and skills. We see a lack of evidence to support this claim, however, no doubt down to the well-known difficulties in studying boards in action let alone boards and directors in critical self-reflection. Qualitative research can illuminate the processes and attitudes that develop through the practice of board evaluation and help us better to identify the benefits and limitations of this approach. It could also help address questions about the efficacy of annual evaluation advocated in policy and based on the cycle of corporate financial reporting and modelled on annual, budget- and pay-related and employee appraisals, which may not match the purposes of board and director development. These insights might then inform to conduct survey-based research to establish a firmer evidence base of practices-in-use and their effectiveness and deficiencies.

The practice of board evaluation conducted by the chairman also required specific research. Anecdotal evidence suggests it is one of the most common methods, in particular among companies that have adopted the UK-style separation of roles, rather than CEO duality. But the chairman may not be neutral; insofar as the chair steers the work of nominations the occupant of that post may contribute to dysfunctional as well as functional board dynamics. If so, these factors too suggests we need to understand better the comparative benefits and drawback of chair-led evaluations and those undertaken through external facilitation.

**External evaluation.** The literature on board effectiveness also lends support to assertions that internal reviews lack objectivity. More specifically, the framework developed in this paper points to a need in board evaluation to detect and interpret deficits in cultural and emotional intelligence, social capital, and persuasiveness that the literature associates with board effectiveness. It also seems to lack the opportunity for use of the evaluator-as-coach to enhance individual director performance (Ensminger et al., 2015). Case study-based research can investigate the varieties of processes and evaluation techniques in use and document some of contingencies associated with special circumstances (i.e. low, medium or high tension) and outcomes when board evaluation takes place.

Moreover, external facilitators are much better placed to identify problem areas that receive scant if any attention in the literature reviewed here. For example, the doyen of academic study of corporate governance, Bob Tricker, described his interest in the field as arising from noticing the divisive cliques and power plays at work on the council of a company incorporated within the University of Oxford (Tricker, 2015). The problem of "divisive cliques" and other dysfunctional practices in boards is something an external facilitator is in privileged position to solve. Research into external facilitation might collect such insights to deepen our understanding of board as well as to improve board practice and the practice of facilitation.

### *A research agenda for compliance and accountability*

The policy push for board evaluations, which was motivated by repeated waves of corporate malfeasance among large, listed corporations. As such policy sees such evaluations as a way to enhance the accountability of boards to their investors. While written largely from the perspective of equity investors' needs, they might also apply to providers of debt capital. Such actions help not only to improve task performance, after all, but also to build confidence of those outside that such action is being undertaken, and undertaken seriously. But it is difficult to determine whether the effort is merely for compliance.

**Internal evaluation.** Both practitioner and academic accounts suggest that, performed in a conscientious and constructive way, boards' self-evaluation can generate information with implications for investors. While such information is rarely disclosed, cognitive conflict does occasionally become public knowledge when it spills out in the form of leaks about boardroom dissent or open hostility between directors, with implications for firm value and strategy. The justifications of board improvement also suggest that reporting publicly about them may reduce the level of shock as well as the severity of disagreement. But the sensitivity of the information argues against detailed disclosure.

These observations point to a need for research with investors over the adequacy of current reporting measures about the observable characteristics of board effectiveness and whether additional outputs from internal evaluation processes might help promote understanding of board effectiveness without jeopardising material and private information. For example, many companies' disclosures of frequency and attendance of board and committee meeting go some way to appreciating the effort norms identified in Forbes and Milliken (1999). Research with investment managers might help establish the usefulness of disclosures concerning the justifications for or remedial actions taken when effort appears to fall below the norm. Similar questions could be raised about other board characteristics or processes that become the subject of internal board discussion and evaluation.

**External evaluation.** The use of an external facilitator for board evaluations is increasingly a reporting requirement and a signal of the adoption of best practice. Such reports are increasingly used as a metric of corporate governance by governance ratings agencies that assist investment managers with their voting decisions. Research with investment managers could help to establish the extent to which an externally led process has been undertaken is helpful and whether details of the facilitators or some form of assurance statement from them changes their judgement. In particular in this regard it would be useful for research to distinguish between the types of uses, whether for investment decisions (i.e. buy-sell-hold; lend-or-not), voting decisions, or understanding the need for and timing of investor engagement and stewardship (Martin, Casson, & Nisar, 2007; McNulty & Nordberg, 2016).

This analysis also suggests that using external evaluation for compliance with external accountability can be a waste of resources and point to a missed opportunity for improvement. If compliance with policy targets slips into symbolic management, the appearance of best practice may even send false signals (Westphal & Zajac, 1998). Here research with boards as well as investment managers would help to distinguish the frequency and perception of such actions, as a warning about the limitations of policy prescriptions for board evaluation.

### *Conducting the research agenda*

In all four cases outlined in Table 3, this paper suggests that further research would help corporations deal with needs for board improvement and external accountability. The policy agenda would also benefit from a better understanding the limitations as well as the possibilities of specifying board processes and setting reporting requirements about the steps taken in response to policy. Sponsorship of such work by professional bodies like the Society for Corporate Governance in the US or the Institute of Company Secretaries and Administrators in the UK could help overcome barriers to access and benefit both corporations themselves and policymakers. In particular, the research agenda outlined here would benefit from a combination of qualitative, ethnographic and interview-based research, survey-based study of practices and effects-based quantitative work on the relationship between board evaluation and various measures of board effectiveness and investor actions.

A potential extension of such research concerns the use of evaluations for improving the performance of boards on private companies and non-corporate entities like charities, social enterprises and government agencies, and even boards of subsidiaries of larger corporations. Many of these have adopted corporate governance practices designed for listed companies, and anecdotal evidence as well as corners of the growing literature on board evaluations (see “specialist themes” in Table 2) suggests these too would benefit from attention to some of the research ideas sketched above.

Neither the literature reviewed here nor the research agenda we have outlined considers those cost of board evaluation. In relation to the revenues of a large listed company they are probably insignificant, but they become more so the smaller the enterprise. As a proportion of the operating costs of the board itself they can be large, through both external facilitation and in director time. Any research undertaken could help us also to understand the benefits and costs.

## Conclusions

Board evaluation is firmly on the agenda of corporations, policymakers and academics. This paper makes some tentative steps towards developing a theory of board evaluation and its potential for impact on the elusive problems associated with understanding how director characteristics and board processes and structures contribute to effective deliberations. In highlighting the internally- and externally-facing purposes of evaluations and the differences made through the two main contrasting methods of evaluating, it points to a research agenda of academic interest but also of importance to corporations and policy in corporate reporting and governance.

These four combinations cannot be quite so easily separated as the discussion here might make them seem. The policy direction of regular internal evaluation punctuated by external facilitation shows there is a transfer between the two approaches, and thus a dynamic that needs to be understood. Moreover, the internal purposes of evaluation ought in some way to inform the external, accountability-focused ones.

Finally, by adapting and integrating different frameworks of board effectiveness we have provided an analytic tool that can be used to explain some of the unanswered questions in the developing literature of board evaluation. We think it also has practical uses for companies seeking to undertake board evaluations and for policymakers in understanding the limitations and even unintended consequences of mandating use of the practice. For those involved in the work of board evaluation – whether internally conducted or externally facilitated – with further development this tool can provide a template for the conduct of board evaluations that can add value as well as highlight potential areas of risk.

**Table 1 – Factors in board effectiveness and evaluation**

| ***Theme*** | ***Core analyses*** | ***Extending literature*** |
|---|---|---|
| **Director characteristics, cognition, processes** | | |
| Cognition and processes, highlighting the tensions between boardroom challenges and group identification | Forbes and Milliken (1999) | Warther (1998); van den Berghe and Levrau (2004); Levrau and van den Berghe (2007) |
| Directors' social capital and relationships | Nicholson and Kiel (2004) | Kim and Cannella (2008); Johnson et al. (2013) |
| Sensitivity; cultural intelligence | Charas (2015) | Earley and Mosakowski (2004a); Triandis (2006); Roberts (2002) |
| Director persuasiveness | Leblanc and Gillies (2005) | McNulty and Pettigrew (1996) |
| **Structures, processes** | | |
| Firm and institutional contingencies affecting the interplay of structure, processes and cognition | Zahra and Pearce (1989) | D'Amato and Gallo (2016); Schmidt and Brauer (2006); Cornforth (2001); Del Guercio, Dann, and Partch (2003); Dahya and Travlos (2000); McNulty et al. (2012) |

**Table 2 – Issues in board evaluation**

| ***Issue*** | ***Themes*** |
|---|---|
| Process overviews | General accounts of evaluation purposes and processes (Daily & Dalton, 2003; Ingley & van der Walt, 2002; Kiel & Nicholson, 2005; Long, 2006; Minichilli et al., 2007; Nicholson et al., 2012)<br>Shortcomings (Rasmussen, 2015) |
| Whom? | Evaluation of the board as an entity (Dulewicz & Herbert, 2008; Leblanc, 2002)<br>Individual directors (Epstein & Roy, 2004; Heracleous & Luh Luh, 2002)<br>Chair (Neubauer, 1997)<br>CEO (Epstein & Roy, 2005)<br>Committees (Martinov-Bennie et al., 2015) |
| Why? | Performance improvement (Conger, 2002; Conger et al., 1998; Long, 2006)<br>Compliance (Rasmussen, 2015) |
| How? | Self-evaluation (Cascio, 2004; McIntyre & Murphy, 2007)<br>External evaluation (Machold & Farquhar, 2013; Schwartz-Ziv & Weisbach, 2013)<br>Choices in evaluation method (Kiel & Nicholson, 2005; Long, 2006; Minichilli et al., 2007; Pitcher, 2014) |
| Specialist themes | Financial services (Groothuis, Wijngaards, & Khan, 2013)<br>Family firms (Vandebeek et al., 2016)<br>Nordic football clubs (Brunzell & Söderman, 2012)<br>Municipally owned firms, as evaluated by the researcher (Sponbergs, 2007) |

**Table 3 - Purpose and method of board evaluation**

| Purpose of evaluation | Method of evaluation: *Internal* | Method of evaluation: *External* |
|---|---|---|
| *Accountability* | Survey data for corporate reporting of basic information (e.g. board demography, proxies for effort norms, presence of knowledge, skills) | Following best practice, or cynically symbolic management |
| *Improvement* | Self-evaluation for diagnosis of potential concerns (signs of conflict; signs of excessive cohesiveness; use of knowledge and skills) | Diagnosis of insufficient or excessive cognitive conflict or cohesiveness; assessment of director social capital, persuasiveness, cultural intelligence; sources and outcomes of interplay between social capital, cultural intelligence, persuasiveness, etc. on cognitive conflict, cohesiveness |

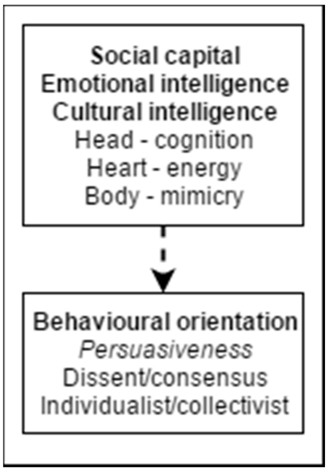


**Figure 1 - Director characteristics**

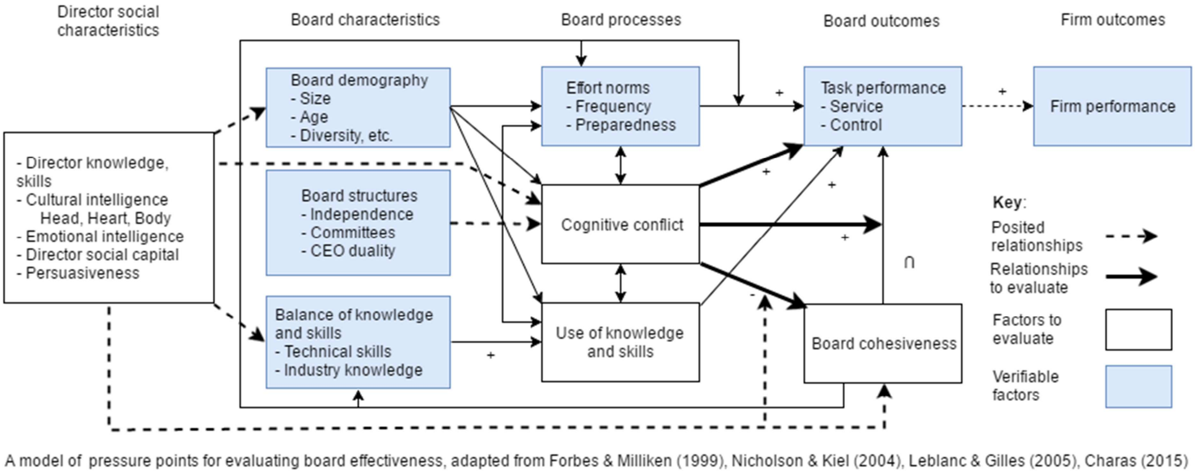


**Figure 2: Pressure points in board evaluation**

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