INTRODUCTION

As the top tier of the corporate decision-making hierarchy, boards of directors can have a substantial impact on corporate performance (IoD, 2010). While there are ongoing debates surrounding what the board of directors should do (e.g., different perspectives on the importance of the monitoring role and independent directors), there is near universal recognition that boards benefit from feedback.

Practitioners and policymakers prescribe board evaluation as fundamental to effective corporate governance (e.g., Walker, 2009; ASX Corporate Governance Council, 2010). As summarised below, most corporate governance codes require boards to outline whether they are carrying out an evaluation on an annual basis, and regulators are taking an increasingly aggressive stance to require evaluations (e.g., APRA, 2009). Coupled with advice from practitioners (e.g., Garratt, 1996; 2010; Kiel, Nicholson & Barclay, 2005; Charan, 2009), it is clear that board evaluations are now a feature of governance practice.

Academically, there has also been a rise in interest in board evaluations. Research from the behavioural sciences, applied to boards of directors, highlights that groups need feedback to learn and develop (e.g., Sonnenfeld, 2002). There is also emerging evidence that reflective boards outperform those that do not take time to review how and why they operate in the way they do (Brown, 2007; Dulewicz & Herbert, 2008). Moreover, in the field of behavioural governance, the last decade has seen the emergence of new models that move beyond the highly simplified agency theory (e.g., Hillman & Dalziel, 2003; Nicholson & Kiel, 2004; Huse, 2007, 2009) against which boards can be compared.

In this chapter, we provide a summary of the trends, challenges and approaches
TRENDS IN BOARD EVALUATION

A major trend in corporate governance has been the shift from boards being seen as “ornaments on the corporate Christmas tree” (Mace, 1971: 90) to boards being seen to have responsibility for strategy and adding value to the organisations they govern (Pound, 1995; Hendry & Kiel, 2004; Huse, 2007; Hendry, Kiel & Nicholson, 2010). As a result, directors and boards are under increasing pressure to do more than simply fulfil their fiduciary duties (van der Walt & Ingley, 2001). At the same time, academics have increasingly concluded that the most used or investigated potential correlates of governance effectiveness (e.g., board structure, independence of directors, use of committees) appear to have little explanatory power in predicting board effectiveness (Tricker, 2009). Thus, there are now calls to understand and manage how boards work, rather than to simply adopt preferred board structures and policies.

One outcome of this shift in thinking about boards is the increased use of board evaluations as a method of performance improvement. Previously, performance improvement took place in an informal way, but there is now pressure to make it formalised (Tricker, 2009), standardised (e.g., National Standards Authority of Ireland, 2010) and more rigorous (Clarke & Klettner, 2010). While there have been many changes over the past 10–15 years, there are at least three key themes to emerge: (1) increasing regulatory prescription and recommendation; (2) increasing use of board self-evaluations; and (3) the rise of external reviews.

**Increasing regulatory prescription and recommendation**

Perhaps the most significant change over the past decade is the increase in regulatory requirements and advice surrounding board evaluations. Nearly every major report and governance-related body has issued advice on conducting evaluations. We have compiled a list of many of these in Table 13.1.

Boards should note, however, that these requirements are the baseline for societal expectations. In Australia, the Corporations and Markets Advisory Committee (CAMAC) stated that it is the directors, not regulators, who carry the responsibility for ensuring boards have an appropriate evaluation process in place (CAMAC, 2010).

**The prevalence of evaluations**

While there have long been arguments that boards need to focus on professionalisation (and the consequent demands for evaluation of directors; e.g., Tricker, 1999), globalisation and the pressures associated with international competitiveness have driven measures such as board evaluations aimed at improving board accountability (Ingley & van der Walt, 2002). Thus, the last two decades have seen a shift in the use of board evaluations from a relatively rare event (e.g., Steinberg, 2000 reports 20% of boards undertaking a review) to a far more regular occurrence (e.g., Clarke and Klettner, 2010 report 70% of boards undertake an...
Table 13.1 Governance codes and board evaluations

<table>
<thead>
<tr>
<th>Country</th>
<th>Code/guideline</th>
<th>Date</th>
<th>Recommended / mandated</th>
<th>Frequency</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>Corporate Governance Principles and Recommendations</td>
<td>2010</td>
<td>§2.5</td>
<td>Regularly</td>
</tr>
<tr>
<td>Belgium</td>
<td>The 2009 Belgian Code on Corporate Governance</td>
<td>2009</td>
<td>§4.11</td>
<td>Regularly (e.g., at least every 2–3 years)</td>
</tr>
<tr>
<td>Canada</td>
<td>Corporate Governance Guidelines</td>
<td>2005</td>
<td>§3.18</td>
<td>Regularly</td>
</tr>
<tr>
<td>France</td>
<td>Corporate Governance Code of Listed Corporations</td>
<td>2008</td>
<td>§9</td>
<td>Annually, with a formal evaluation at least once every 3 years</td>
</tr>
<tr>
<td>India</td>
<td>Corporate Governance Voluntary Guidelines 2009</td>
<td>2009</td>
<td>§II.D</td>
<td>Annually</td>
</tr>
<tr>
<td>Italy</td>
<td>Corporate Governance Code</td>
<td>2009</td>
<td>§1.C.1(g)</td>
<td>Annually</td>
</tr>
<tr>
<td>Netherlands</td>
<td>Dutch Corporate Governance Code: Principles of Good Corporate Governance and Best Practice Provisions</td>
<td>2009</td>
<td>§ III.1.7</td>
<td>Annually</td>
</tr>
<tr>
<td>New Zealand</td>
<td>Corporate Governance in New Zealand: Principles and Guidelines</td>
<td>2004</td>
<td>§2.10</td>
<td>Annually</td>
</tr>
<tr>
<td>Norway</td>
<td>The Norwegian Code of Practice for Corporate Governance</td>
<td>2010</td>
<td>§9</td>
<td>Annually</td>
</tr>
<tr>
<td>South Africa</td>
<td>King Code of Governance for South Africa (King III)</td>
<td>2009</td>
<td>§2.22</td>
<td>Annually</td>
</tr>
<tr>
<td>Sweden</td>
<td>The Swedish Corporate Governance Code</td>
<td>2010</td>
<td>§8.1</td>
<td>Annually</td>
</tr>
<tr>
<td>Thailand</td>
<td>The Principles of Good Corporate Governance for Listed Companies</td>
<td>2006</td>
<td>§5</td>
<td>Regularly</td>
</tr>
<tr>
<td>UK</td>
<td>The UK Corporate Governance Code</td>
<td>2010</td>
<td>§8.6</td>
<td>Annually – externally facilitated at least every 3 years</td>
</tr>
<tr>
<td>USA</td>
<td>NYSE Corporate Governance Standards</td>
<td>2009</td>
<td>Rule 303A.09</td>
<td>Annually</td>
</tr>
</tbody>
</table>

annual evaluation). This is particularly so in listed companies where they are often mandated or strongly encouraged through governance codes (see the preceding section).

The preceding comments and figures relate to “board-as-a-whole” reviews, where the overall performance of the board is reviewed. A second and complementary approach to reviews is individual director evaluation. While recent attitudes to individual director evaluations have changed, and few would now argue against them (Tricker, 2009), they are clearly employed less often than whole-of-board reviews. For example, a 2004 survey by Korn/Ferry international reported that 21% of boards conducted self-evaluations (Stybel & Peabody, 2005), while Nadler (2004) reported 24% of respondents carrying out individual assessments.

**External reviews – a new phenomena**

In addition to a rise in internal evaluations, there has also been a rise in the number of external reviews conducted by ratings agencies, pressure groups, investors, and so on (Collier, 2004; Van den Berghe & Levrau, 2004). External evaluations are largely conducted through analysing statements by the board in external reports. These are then compared with some benchmark such as the Combined Code (now the UK Corporate Governance Code) (Collier, 2004) in the UK (Financial Reporting Council, 2010) or the ASX Principles in Australia (ASX Corporate Governance Council, 2010). There are a number of organisations producing such reviews. Standard and Poor’s,
the FTSE Group in collaboration with International Shareholder Services (ISS), GovernanceMetrics International (GMI), Deminor Corporate Governance Ratings, and Thai Rating and Information Services (TRIS) are examples of groups providing ratings assessments (Tricker, 2009).

A major criticism of external reviews is that they rely on the published statements of companies as to their practices. These statements may not fully reflect what the company does or does not do. In addition, these public statements are contrasted against criteria that not all directors and commentators would agree represent best practice. Finally, they are not informed by the behaviours and decision making that actually goes on in the boardroom. Nevertheless, they are an important trend.

DEFINING AND MEASURING BOARD EFFECTIVENESS

Clearly, boards are being pressured to undertake more rigorous evaluations, more often. Yet, this trend to an increasing use of board evaluations has highlighted some of the challenges facing boards. One of the greatest challenges for both academics and practitioners lies in how to define an “effective” board. The different contexts in which different boards operate (e.g., different legal structures, for-profit vs not-for-profit, family owned vs listed, stable vs turbulent industry) and the various constraints they face (e.g., constitutionally imposed constraints, operating environment shocks, institutional forces) results in “value creating boards” (Huse, 2007: 4) undertaking different tasks and having different attributes. In short, board effectiveness is both contingent and equifinal – it is contingent on the broad environment in which the organisation finds itself, and there are alternative paths to effectiveness. The existence of these alternative paths to board effectiveness can be seen in the differing models of how boards work (e.g., Donaldson & Davis, 1994; Hillman & Dalziel, 2003; Nicholson & Kiel, 2004, 2007; Huse, 2007).

The problematic nature of measuring board performance springs, we believe, from three major sources. First, the focus of a board evaluation is often ill-defined and mixed; in academic language, the unit of analysis is poorly defined. Second, there are few sources of data and the key sources (the board itself and key employees) are subject to bias. Third, current thinking on the relationship between boards and performance emphasises the contingent nature of the board’s work, meaning there may be no singular way to measure board effectiveness. In fact, we know that different stakeholders judge board and organisational performance differently (Herman, Renz & Heimovics, 1997; Callen, Klein & Tinkelman, 2003; Balduck, Van Rossem & Buelens, 2010). And while there is some limited, coherent, case or survey-based understanding of what makes a very effective director (e.g., Tricker & Lee, 1997), there are quite disparate views on the attributes of an average or poor performer (Balduck et al., 2010).

Thus, the definition and measurement of board effectiveness is a key problem for board evaluations. To some degree, the topic is like the definition of hard-core pornography offered by Justice Potter Stewart: we cannot define it, but we “know it when we see it” (Jacobellis v. Ohio 378 U.S. 184 (1964)). In the following sections, we outline these key challenges and summarise the implications for board evaluations and current thinking about how to solve these problems.

Evaluation focus – unit of analysis problems

One of the major challenges facing a board evaluation is choosing the appropriate level of analysis for the process. A key error is substituting organisational performance for board performance (Nicholson & Kiel, 2004). Quite simply, just because a company is
performing well does not mean the board is effective. There may be an exceptional management team in place, the current organisational performance may reflect previous (not current) board performance, or it may be a matter of luck (e.g., Mauboussin, 2009) – a point to which we return in our discussion on contingency. Thus, the first step in defining effectiveness lies in differentiating board performance from organisational performance.

Despite these significant difficulties, we would propose that it is possible to assess board effectiveness accurately. To do so requires us to understand the complex nature of the issue. Boards, like most groups (see Hackman, 2002), require three different types of effectiveness if they are to maximise their potential. These types of effectiveness operate at three different levels – the organisational level, the group level and the individual level. The idea of different levels of performance is put in different language in the governance literature. Some authors concentrate on the work of the board. They look at board roles (Zahra & Pearce, 1989) or board tasks (Huse, 2007), and how they add value to the corporate value chain (Huse, Gabrielson & Minichilli, 2009a, 2009b), while others concentrate on the group (Forbes & Milikin, 1999) and individual requirements (Tricker & Lee, 1997).

Instead of being the exclusive domain of one level of analysis, board effectiveness is likely to be highly complex (Ingley & van der Walt, 2002), requiring a sophisticated approach (Dilenschneider, 1996). Board evaluations should include both group and individual levels of evaluation (Epstein & Roy, 2004b), where the attributes of a director affect their ability to contribute to a board in complex ways – for example, minority directors have more influence on strategic decision making if they have experience as directors (Westphal & Milton, 2000). To understand this dynamic better, we provide current thinking on the three key levels of analysis – board purpose, group development and individual contributions.

**Fit for purpose**

First, a board needs to be fit for purpose or able to carry out the tasks the organisation requires of it. In the organisational psychology literature, this would be considered the team product (e.g., McGrath, 1984) and follows the major academic research traditions that focus on understanding the tasks required of the board (e.g., Johnson, Daily & Ellstrand, 1996; Hung, 1998) and normative prescriptions for the board to clarify what it sees as its role. An effective board is one that knows and can execute the tasks required of it, irrespective of how those specific tasks vary with each board. Ultimately, relevant board task execution determines whether a board adds value, not the execution of a standard role set.

Different researchers provide different terminology to the area, with the team product being called board roles (e.g., Zahra & Pearce, 1989), board tasks (e.g., Huse, 2007) and board functions (e.g., Cornforth, 2001). Similarly, there are different terms and categorisations used by different researchers. These range from Hillman and Dalziel’s (2003) two role models of control and access through various three-role typologies of service (including advice giving and strategy), networking and control (Zahra & Pearce, 1989) through to six role models (e.g., Hung, 1998) and more.

Similarly, there is no agreed role set among the normative literature (e.g., Garratt, 1996; Charan, 1998; Carter & Lorsch, 2004). However, there is emerging evidence that practitioners focus more on a normative list of their tasks than on a generic set of limited roles as described in the academic literature (Nicholson & Newton, 2010). What is critical is that the board’s product – its “core responsibilities and activities” – need to be translated into expectations of the board (Conger & Lawler, 2009).

**Group**

In order to deliver its core responsibilities and activities, a board requires its directors to work together effectively. Recent analysis of
board contributions to the global financial crisis highlight how board “effectiveness has been undermined by a failure to observe appropriate boardroom behaviours” (ICSA, 2009: 3) such as the willingness and ability to challenge management (Walker, 2009). Furthermore, if we combine (1) the definition of a team as a group with a common goal (Hackman, 2002) and (2) the legal concept that a corporation is a separate legal entity founded for a common purpose and which is directed by the board (Micklethwait & Wooldridge, 2003), then clearly the board is an autonomous team.

Recognising an effective board as a high performing group leads to the conclusion that boards, like other work groups, would benefit from active construction (or “board building”) and management (Nadler, 2004: 104). Effective boards will share the attributes of an effective team – cohesion, cognitive conflict, shared commitment and values, and so on (Huse, 2005). These team-based attributes are no substitute for individual competence or task execution, but rather allow the board to make the most of the people that they have serving on the board to execute the required task set. Thus, in-depth interviews with 60 Belgium directors highlighted how both team attributes (e.g., board meeting quality, board composition, decision making) and fit-for-purpose outcomes (i.e., role of the board, management–board–shareholder relationships, etc.) are seen as elements of an effective board (Van den Berghe & Levrau, 2004). Similarly, the kinds of information that the board possesses (diversity of information) and the way board meetings take place (open discussion and active search for information) affect the CEO ratings of board strategic tasks immediately and into the future (Zhang, 2010).

There is growing evidence of the importance of group-based performance to board effectiveness. For example, a survey of 495 small Norwegian firms found that group attributes (e.g., board working style and board quality attributes such as motivation) were more predictive of the board’s strategic task/role involvement than individual director attributes (such as traditional composition measures) per se (Pugliese & Wenstøp, 2007). Similarly, the individual attribute of motivation is an important factor, with clear evidence that individual motivation is related to both peer-perceived and self-rated engagement and execution of board work (Stephens, Dawley & Stephens, 2004).

Thus, the relationship between team development and task or role execution is complex, and is an important component of the current research agenda (Zona & Zattoni, 2007). Board effectiveness is intertwined with the intra-board relationships and relationships with management (Castro et al., 2009) whereby group-based issues such as inter-group dynamics are likely to affect roles like advice and service (Kor, 2006). In short, the ability of directors to work together is critical to the board’s roles/tasks – and this itself relies on the competency of directors.

**Individual**

An effective board is also one where directors have the required competencies (Tricker & Lee, 1997), are contributing appropriately (Dulewicz & Herbert, 2008), and enjoy their work (Preston & Brown, 2004). As a starting point, a director’s human capital (knowledge, skills, abilities and social networks) is thought to be important to board performance (Hillman & Dalziel, 2003). Directors need to be competent (Roberts, McNulty & Stiles, 2005) and have firm-specific knowledge and skills such as company and industry knowledge (Charan, 1998).

There is, however, no clear competency list to guide any assessment process. In regulatory frameworks there is little consideration given to a director’s competencies beyond independence (Zattoni & Cuomo, 2010). Thus, most advice on director competence focuses on the fiduciary duties of directors, and is insufficiently tailored to the myriad of company contexts (Tricker & Lee, 1997). Instead, director competencies vary from company to company and board to board (Coulson-Thomas, 2009) with
the various “fit-for-purpose” requirements (e.g., monitoring, advising, strategy, access to resources) differing between boards. By implication, so will required competencies (Tricker & Lee, 1997) and what often results in a complex list of highly desired competencies that are almost impossible to satisfy (e.g., Balduck et al., 2010 identified some 41 different competencies in their study of volunteer board members of community sports organisations).

The focus on individual competencies needs to be broader than knowledge and cognitive competencies, however. The omission of emotional and social competencies neglects important components of an effective director’s competency set (Balduck et al., 2010). Engaged individuals work harder, use their knowledge and contacts more and generally feel more satisfied with their role and contribution (Kahn, 1990; Meyer, Becker & Vandenberghe, 2004; Cropanzano & Mitchell, 2005). While it is important to consider if the individual directors are contributing effectively, this does not mean that an effective board requires the same kind and level of performance from each director, but rather that each is contributing from their capabilities appropriately and gaining sufficient satisfaction from the role. Finally, boards and those involved in evaluations need to realise that, in many contexts, director competencies may need to be built over time (van der Walt & Ingley, 2001).

In addition to this general guidance, there is emerging evidence that individual directors do make a difference. Thus, director commitment is related to self-reported and peer-perceived involvement in non-profit board work (Preston & Brown, 2004). More directly, above-average directors (measured as those hired following losing a position following a takeover) were associated with subsequent above-average firm financial performance in the firms into which they were hired (Fairchild & Li, 2005).

The interaction between individual and group-based attributes is also reflected in the growing importance placed by academics on information gathering and processes (e.g., Forbes & Miliken, 1999; Nicholson & Kiel, 2004; van Ees, Gabrielsson & Huse, 2009). Normative advice, such as requirements to have board papers prepared well in advance of meetings (Kiel & Nicholson, 2003; Epstein & Roy, 2004a), is clearly evidence of how the functioning of the group interacts with the traits of the individual to affect board performance.

Finally, on a practical level, there is a complexity in board evaluations of individuals that springs from differences in the ease with which a director’s skills and experience can be assessed compared with how well she or he works with others (Clarke & Klettner, 2010). As we move from more objective assessments of experience and verifiable skills into important concepts such as trust, politics, power plays and decision flaws, objective verification and personal perceptions become more important. These issues are critical to board effectiveness, independent of the individual director’s abilities (Finkelstein & Mooney, 2003; Huse, 2009b).

**Evaluation of the levels – evidence from the field**

Despite the strong theoretical issues surrounding selecting an appropriate level of analysis, it is generally treated tacitly or ignored in board evaluations. Spencer Stuart’s (2010) 25th annual study of S&P 500 boards found that of those companies evaluating their boards, only 26% evaluate individual directors in addition to the entire board – a rise from 22% in 2009 (see Figure 13.1). Conger and Lawler (2009) report that in large US corporations, some 98% evaluate overall board performance, 97% evaluate committee performance and 84% evaluate individual director performance.

At a more subtle level, our experience of evaluating and assessing individual performance largely ignores the group nature of the board’s work. Since directors share a common legal liability (e.g., Baxt, 2009), most boards assess the requirements of each individual director with the same tool and requirements.
Questions of preparation, contribution and so on are uniform; however, each individual director may bring a different set of attributes and behaviours that are not suited to uniform assessment. For instance, consider the finding that some 28% of directors reported that they did not understand the basic insurance agreements housed in their directors’ and officers’ (D&O) insurance policy (PricewaterhouseCoopers, 2010). While this is an obvious concern for an individual director’s personal liability, is it a concern for the board’s performance? If one director does understand it, has assessed it, and concluded it is appropriate, then the impact of all other directors not knowing is nil. We believe the lack of attention provided to issues such as these is an area for future development.

In summary, to carry out an effective evaluation, boards need to consider the level of effectiveness on which they want to focus, bearing in mind deficiencies in a higher-order level of effectiveness (e.g., fit-for-purpose problems) may be caused by lower-level deficiencies (e.g., inadequate team development). For example, if a director is not sufficiently engaged or competent, he may not contribute to board discussions and decisions for fear of appearing foolish. As a result, the board can develop a climate that does not encourage robust discussion and debate, leading to ineffective performance of the board’s tasks – it may not exercise decision control well over a proposed capital expenditure, because not all possible risks or flaws in the management proposal are identified. An effective board is one with a holistic understanding of the relationship between the elements of effectiveness and an approach to working and evaluating all three levels over time.

**Contingent nature of board performance and resulting corporate governance models**

Finally, a key issue facing boards is the highly contingent and complex relationship between board effectiveness and firm performance. The relationship between boards and firm performance is often affected by factors outside the board’s control (Clarke & Klettner, 2010), particularly in the short term. Economic conditions, industry conditions,
lifecycle, management development and myriad other factors (e.g., Nicholson & Kiel, 2004) all affect the relationship between board and firm performance. Importantly, the board’s role is almost universally thought to be contingent on these and other important contingencies (e.g., Carter & Lorsch, 2004; Hillman & Dalziel, 2003).

MODELS OF BOARD EFFECTIVENESS – RESPONSES TO CONTINGENCY

Most often, models of how boards work assist researchers and practitioners understand this complexity. In a board evaluation context, governance models dictate the type of data collected, the analysis process employed and, from a practitioner’s perspective, the action plan that is developed. They allow people to conceptualise the “inner workings” of a board – what a board actually does as well as the way in which it accomplishes its work.

Until relatively recently, the preponderance of interest was in the way the board could be used to monitor and control management (e.g., Smith, 1776) to overcome the problems caused by the separation of ownership from control (Berle & Means, 1932). While there are clear models of this agency relationship (Jensen & Meckling, 1976), there was no real model of board effectiveness.

Thus, practitioner recommendations focused on board structure (independence from management in the form of outside directors and separating the chair/CEO role), but with divergent rationales (e.g., in a study of 60 different governance codes recommending board independence, Zattoni and Cuomo, 2010 fail to identify a consistent rationale). Similarly, academic research into the monitoring role has failed to provide consistent, robust evidence that independence is how boards add value to their corporations (Daily, Dalton & Cannella, 2003; Finkelstein & Mooney, 2003).

Over the past several decades, views on effective boards have evolved, however. The following sections outline five such models, and conclude with observations on their commonalities and implications for board evaluations.

Zahra and Pearce’s (1989)
integrated model

The first integrated and widely cited model of board effectiveness was proposed by Zahra and Pearce (1989) (see Figure 13.2). Their review of 22 empirical articles revealed the role of the board went beyond monitoring and included what they termed the strategy and service roles. Importantly, the authors recognised that organisations face different challenges during their life cycle and so “boards are expected to perform qualitatively different roles at various points of the cycle as exemplified by the different way a board performs its control function in an entrepreneurial firm as opposed to a well-established, mature operation” (Zahra & Pearce, 1989: 298).

Additionally, they provided a logic that linked the antecedents (composition, characteristics, structure and processes) to these role requirements, and the complex relationships that linked attributes to roles. Thus, their contribution provides a contextual contingency as well as a path from board attributes through board roles to organisational performance.

intellectual capital framework

Building on Zahra and Pearce’s (1989) contribution, Nicholson and Kiel (2004) provide a more detailed, group- and individual-focused framework that attempts to link boards and corporate outcomes. The three advances in their model are: (1) an explicit recognition of the group, individual and corporate levels of performance required in a
Figure 13.2 Integrated model of board attributes and roles
Adapted from Zahra & Pearce, 1989: 305.

Figure 13.3 The board intellectual capital framework
board system; (2) the explicit recognition that the attributes of board (what they term the board intellectual capital) are themselves a result of the corporation’s context; and (3) the emphasis that “an effective corporate governance system requires a series of components to be in a state of congruence or alignment” (Nicholson & Kiel, 2004: 443). Their overall model explicitly recognises the notion that there is no one-size-fits-all approach to board effectiveness (see Figure 13.3).

Carter and Lorsch’s (2004) board as a system

While presented differently, Carter and Lorsch’s (2004) model of board effectiveness shares several attributes with that of Zahra and Pearce (1989), and Nicholson and Kiel (2004). First, they explicitly recognise the contingency of the relationship between board roles and the company situation (Figure 13.4). Second, they also propose that the group’s performance is critical to board effectiveness – it is often not so much how individual directors perform, but how they function together. Finally, they see that the elements of the board need to align with the role of the board. In so doing, they explicitly call for performance reviews to assess board behaviours and to collect information from executives who “see the board in action” (Carter & Lorsch, 2004: 178).

Charan’s (2005) board as a source of competitive advantage

In line with all three preceding models, Charan provides a view of the board that has evolved from a compliance-focused, ceremonial body to one that is ideally active and “liberated” (2005: 30). Based on his extensive consulting practice, he viewed an effective board as having: (1) good group dynamics; (2) an appropriate information architecture; and (3) a correct focus on the substantive issues (Figure 13.5). These three building blocks allow the board to carry out the roles (or tasks) required of it.

As with Carter and Lorsch (2004), Charan (2005) emphasises the importance of group dynamics and the advantages of peer-evaluation as part of a review process. By concentrating on continual improvement, he advocates for the board as a source of competitive advantage.

Huse’s (2007) value-creating board

Huse’s (2007) most recent conceptualisation of the board as a system (e.g., see Huse, 2000 for earlier versions) provides a broader, societal focus for understanding how boards add value. In line with all the previous models, the value-creating board model concentrates on how the board’s composition and routines, processes and policies allow it to execute the role set required by its context.
Competitive Advantage

Right CEO and Succession Plans
CEO Compensation
Right Strategy
Leadership Gene Pool
Monitoring Health, Performance, and Risk

Three Building Blocks

Group Dynamics
- Between directors, and between directors and management
- Constructive dissent
- Widely participative

Information Architecture
- Focused, timely, and digestible
- Directors “know” the business
- Management anticipates board needs

Focus on Substantive Issues
- Right balance between performance and conformance
- Value add, anticipatory mind set

Figure 13.5 The board as a source of competitive advantage
Source: Charan, 2005.

Figure 13.6 The value-adding board framework
Adapted from Huse, 2007: 4.
MODELS OF BOARD EFFECTIVENESS – SOME SHARED ATTRIBUTES

While there are clear differences between these models, there are some important similarities they share that can inform a board evaluation. First, they highlight that the relationship between organisational performance and board effectiveness is complex and not easily studied (Cadbury, 1997; Herman & Renz, 2000) and varies from company to company – there is no “one size fits all”. Similarly, they aim to look beyond simple agency theory approaches (Daily et al., 2003) and the consequent monitoring role of the board.

Another commonality is a shared pattern of thinking of how boards add value. First, the board has a set of roles or tasks that it is required to perform. These roles/tasks vary with context and allow the board to work with, and through, management to add value to the company it governs.

Second, the board has a series of attributes that will determine how well these roles are executed. The attributes involve three broad headings: (1) the composition of the board; (2) the policies, processes and routines the board uses; and (3) the relationships between board members and the board and management. Again, the key inference is that board effectiveness involves getting the fit between these components right, rather than fulfilling any singular recommendation for every board.

We bring these common elements together in Figure 13.7, which also recognises the impact the board has on company performance directly: for example, through the decisions it makes, the resources it can bring to the organisation, and through the support the board can give to management, because of its range of skills, knowledge and experience.

Hard to measure and few metrics

An interesting feature of the board evaluation terrain is the plethora of tools available to boards – a Google search of the term “board evaluation tools” revealed 15,400 hits, many of them to resources that boards can download for free. Despite the enormous number of tools, we are aware of only four with any kind of empirical validation process.

Gill, Flynn and Reissing’s (2005)
Governance Self-Assessment Checklist (GSAC)

One useful resource is the Governance Self-Assessment Checklist (GSAC) developed by Gill, Flynn and Reissing (2005). While it does exhibit sound psychometric qualities,
there are a number of potential difficulties. There are two concerns with the GSAC, common to the other instruments. First, the tool centres on board effectiveness as a single construct with what appears to be a large number of redundant items in the scale. The checklist has 12 dimensions or scales, with an average 12 items per scale or 144 items. The tool may well benefit from removing items, as suggested by the very high reliability scores (Cronbach’s alpha) reported. Second, while the instrument is explained as a 12-dimension, single construct (board effectiveness), the technique used to validate this structure could have been more robust.

Slesinger’s (1991) Board Evaluation Tool
Herman and Renz (1997, 1998, 2004) have produced a stream of research investigating Slesinger’s (1991) board evaluation tool. Like Gill et al. (2005), they have a single construct (board effectiveness) that is made up of 11 questions drawn from 11 different dimensions of effectiveness. This instrument produced wide variability in effectiveness ratings between raters. Additionally, “both board members and chief executives apparently regard the financial condition of the organisation as the true measure of board effectiveness” (Herman & Renz, 1998: 700) – an interesting phenomenon in a sample of non-profit organisations. It appears to confirm the difficulty (particularly for respondents outside the boardroom) to differentiate between (1) organisational and board performance and (2) financial performance and other important aspects of performance.

Holland’s (1991) BSAQ
The BSAQ (Holland, 1991) is perhaps the most extensively published instrument designed to measure board effectiveness. It conceptualises board effectiveness as requiring six dimensions (i.e., context, education, interpersonal, analytical, political, and strategic skills). It appears the BSAQ is evolving as the number of items reported varies across the studies: for example, 69 items in Holland (1991); 73 items in Jackson and Holland (1998); unreported in Holland and Jackson (1998); and 37 items in Brown (2005). Reliability measures in the studies have ranged from good (Brown, 2005) to marginal (Holland, 1991).

An area of potential concern involves the construct dimensions. As with Gill et al. (2005), board effectiveness is presented as multidimensional, and the papers report subdimensions load on a single factor. It is difficult to assess the attributes of the instrument as presented, because we cannot assess the cross-loadings across factors or dimensions. A more convincing case could be made through the use of multiple factor analytic techniques including confirmatory factor analysis undertaken with structural equation modelling (e.g., Anderson & Gerbing, 1988; Arbuckle, 2003). Additionally, the sample involved US seminaries or smaller liberal arts colleges/universities and so the instrument may not generalise, although, in fairness, Brown (2005) did report a more generalised sample.

Nicholson and Newton’s (2010) Board Roles
The most recent validated tool to be published is Nicholson and Newton’s (2010) Board Roles instrument. In what is an early stage of their research, they build on the work of Nicholson et al. (2008) to develop an instrument to measure ideal and board role performance. They report a five-dimensional model of board roles performance (strategy, oversight and mentoring of the CEO, risk and compliance, oversight of the governance system, and access to resources) with good psychometric properties. As with Holland (1991), it would benefit from replication and a greater breadth of sample.

Few metrics
Overall, these tools are definite steps forward in helping boards improve their performance. However, there are potential drawbacks when applied to governing bodies, particularly in more diverse contexts. First, all tested tools are focused on one issue – board
effectiveness – and not the possible issues leading to board effectiveness. There are potential statistical problems with the dimensionality of the BSAQ and GSAC as well as unclear reliability traits. Third, there are some unique samples used in the research that would appear to differ substantially from many board contexts – several of these instruments were tested on samples drawn from small US liberal colleges, seminaries, entirely non-profit samples, and similar.

In summary, there are few hard metrics or systems to conduct board evaluations and many of the advances in measuring organisation and management performance have yet to transfer to the measurement of board performance (Epstein & Roy, 2004b). While some steps to improve measurability of board performance, including metrics, include the adaptation of the Balanced Scorecard methodology (Epstein & Roy, 2004a) and more rigorous approaches to measuring aspects of what boards do (Nicholson & Newton, 2010), these methods are either only part of the solution or based on normative views of governance effectiveness.

Overcoming individual resistance to and negative perceptions of board evaluations requires us to address the issues we have outlined. The subjective nature of inputs and the complex measurement issues involved in assessing director and board performance are important considerations to any evaluation process (Ingley & van der Walt, 2002).

**Problems in self-rating**

Another practical problem involves identifying appropriate data to verify effectiveness. Most boards operate in commercially sensitive environments. Consequently, few individuals outside the board (and generally only a few select individuals such as the company secretary, CEO and CFO) have any substantial exposure to the work of the board. Thus, board evaluations most often rely largely (if not solely) on self-evaluations or, at best, the feedback of individuals in a subordinate position. As a result, any conclusions need to be treated with care, as they may suffer from a number of biases.

Perhaps the key problem associated with board self-evaluations is the general tendency for people to rate themselves as superior compared to an “average” or generalised other, sometimes called illusory superiority. In fact, some studies indicate that more than 90% of respondents will overrate themselves (Gramzow et al., 2003) and that it will occur across a range of different criteria (Robins & John, 1997). Importantly, this tendency to overrate is correlated with positive self-esteem (Brown, 1986), a person’s need for achievement (Gramzow et al., 2003) as well as poor prior performance (Gramzow et al., 2003). In the case of boards, it is reasonable to conclude that individuals at the apex of the organisation have both high self-esteem and a high need for achievement.

Consequently, most board members view their performance as above average. Figures 13.8 and 13.9 provide an insight into this phenomenon. Each is a histogram of the average board rating in response to the question, “Overall, how well is your board performing?” Figures 13.8 and 13.9 provides the data from a board evaluation company Effective Governance and a summary from a similar question asked of non-profit boards in the Developing Your Board research program run out of the Queensland University of Technology (QUT). Out of 95 boards comprising 870 directors, not one rates itself below average (5/10). Of the directors, only 55 individuals rated their boards as less than 5/10 out of the 870 – some 6.3%.

While it is possible to compensate for this consistent bias across respondents (for example, standardising scores or simply transforming the scores downwards), more difficult issues arise when poor performance is associated with greater than normal exaggeration. In our experience, there is often an inverse relationship between a board’s rating of itself in this question and the performance of the board as observed by the team undertaking the board assessment. This point is
Figure 13.8  Average self-rating of board effectiveness by members of the board (n = 95)

*Sources:* Courtesy of the DYB Project, QUT.

Figure 13.9  Rating of board effectiveness by each director (n = 870)

*Source:* Courtesy of the DYB Project, QUT.
reinforced by evidence from the field that often directors performing poorly have been known to give themselves “outlandishly positive scores” in self-assessments (Behan, 2006: 50). While this could be a general tendency in people (Gramzow et al., 2003), we hypothesise (in line with the overconfidence bias and a lack of situational awareness) that it often occurs on boards and with individuals who have little governance experience to act as a reference point.

These observations raise another issue in board evaluations – Is it possible to benchmark boards? Some commercial organisations offer benchmarking services where, by using a common questionnaire over multiple boards, comparisons can be made as to how one board rates relative to others. Based on the discussion above, this process is quite misleading. First, as noted, the absolute rating of a board on a construct is a function of the level of insight of the directors – high scores do not necessarily represent high performance. Second, as covered in our previous theoretical discussion, board performance is both contingent and equifinal, a point that is ignored where a score is simply contrasted with a sample of other scores.

Although a concern, there are several ways to compensate for this effect. First, using a mixed method approach will likely highlight potential issues irrespective of the individual ratings of items that directors make. Similarly, involving outsiders in the review (either as the source of data or to facilitate the review) can help. Finally, work on cognitive biases indicates that simple awareness can go a long way to overcoming the negative outcomes associated with a decision-making heuristic (e.g., Bazerman, 2002). Thus, making boards aware that they are likely to overrate themselves, may go some way to ensuring they discount this possible bias in rating.

**Time-based problems**

Finally, there are significant problems in assessing the impact of the board due to the confounds of time: the lag between board activity and firm or management performance. While the board’s decisions may result in substantial immediate performance effects (e.g., responding to a crisis), board decisions generally involve long-term time horizons. For instance, hiring a new CEO is unlikely to have any immediate effect on organisational performance (here we exclude any possible announcement effect), but rather a medium-to-longer-term impact, as the new CEO gains a solid understanding of the company and begins to implement substantive change. Similarly, capital expenditure decisions and changes in strategy take significant time to implement and flow through to clear corporate performance. Thus, the ability to link board activity to overall corporate performance is problematic. Variable and long time lags, problems of reverse causality (e.g., declining CEO performance may lead to greater board involvement in their oversight of the position) all inhibit our ability to measure and demonstrate board effectiveness.

**STEPS FOR AN EVALUATION**

Having outlined the trends in evaluations and the major challenges facing boards and academics, we now turn to the key issues involved in developing a successful board evaluation. This section is based on Kiel and Nicholson’s (2005; Kiel, Nicholson, & Barclay, 2005) model for designing an evaluation process (see Figure 13.10). It shares many attributes with other work in area – for example, Minichilli, Gabrielson and Huse’s (2007), “Who does what, for whom, and how?”

**What are your objectives – Why are you doing it?**

The first (and, in our view, most important) aspect of any evaluation is establishing why you are doing it. Without a solid rationale
shared by the board members, any evaluation is likely to meet resistance and/or fail. Rather than focusing on the actual areas of governance for review, the first step is to be clear on the why – What is your board’s motivation in undertaking a review? The real value in a board evaluation springs not from following what others are doing, but focusing on what your board wishes to gain from the process.

Most directors report they experience positive outcomes from evaluations (Clarke & Klettner, 2010). In this section, we detail the key reasons to undertake a review. These are to: (1) highlight areas for improvement, either in a general or specific way; (2) model good performance management to the executive and organisation; (3) signal to stakeholders that you value governance; (4) comply with requirements of the regulator; and (5) act as a mechanism to protect directors.

**Problem identification and resolution**
The most common reason for board evaluations is improvement at the group level. As Sonnenfeld (2002: 114) highlights:

> People and organizations cannot learn without feedback. No matter how good a board is, it’s bound to get better if it’s reviewed intelligently. . . . If a board is to truly fulfill its mission – it must become a robust team – one whose members know how to ferret out the truth, challenge one another, and even have a good fight now and then.

An effective board evaluation can improve the working conditions of the board, in particular the development of the requisite team capacity to perform the roles required of it. For example, an evaluation may clarify individual and collective responsibilities (Conger & Lawler, 2009). As a result, an effective evaluation can assist boards to attract and retain good directors (Nadler, 2004), as well as build the culture of the board (Stybel & Peabody, 2005). Unlike retirement age or term limit policies, board evaluations contribute to board renewal in a targeted way that distinguishes between high and low performance (Behan, 2006) such that evaluations can feed into the training and development approach of the board. For instance, in the UK, Hampel (1998) provides normative advice for targeted director training (recommendation 3.5) informed by a process for assessing collective and individual performance, a position carried over into the Combined Code in 2006 (Principle A.6) (Dulewicz & Herbert, 2008).

These effects are noted in the literature, particularly for decisions about board composition. Dulewicz and Herbert (2008) report that board evaluations influenced a director’s decision to resign in nearly one-third of cases and the appointment of directors in over two-thirds of cases in their sample drawn from the FTSE 350. Similarly, board evaluations provide a basis for the chair (or lead director or similar) to discuss strategies for personal development with each director, often separately (Tricker, 2009).

Perhaps the most important way a board evaluation helps is by enabling the board to recognise both straightforward and complex issues and bring them to the surface for resolution (Wolf & Stein, 2010). Thus, board evaluations can address important board–management relationships, concerns
surrounding individual directors and power issues in organisations (Stybel & Peabody, 2005; Conger & Lawler, 2009), especially in situations where individuals might feel reticent about raising problems without being asked directly. As part of this process, it can allow directors to ensure that what they perceive or espouse as the issue is in fact the cause of problems. For instance, Nadler (2004) reports how a board espousing problems around the CEO/president role ambiguity actually related to wanting more information about acquisitions being pursued.

This factor also transfers through to the individual level of analysis, where it provides important feedback for directors on their performance. Evaluations contribute to director satisfaction (Nadler, 2004) and provide an important basis for self-development for the individuals involved.

Performance improvement itself, however, has a number of dimensions. It can range from a review of previous evaluations or a simple check-up against a governance framework, through a process designed to address known challenges to the situation where a board knows that something is wrong, but is unsure of exactly what it is or what they can do about it. Figure 13.11 provides a conceptual framework for thinking about this important aspect of a board review.

**Modelling performance management and culture building**

From an organisational perspective, board evaluations can also play an important symbolic role as the board leads by example (ICSA, 2009), models performance management to the senior managers (Behan, 2006) and sets the tone for a continuous improvement approach within the organisation (Clarke & Klettner, 2010). A highly structured approach can include benchmarking the board’s performance, although this will take the commitment and time required to build sufficient goodwill and trust to make it possible (Garrett, 2003).

**Signalling to stakeholders**

Externally, evaluations perform a number of roles. First and foremost, evaluations are often viewed as an accountability mechanism for investors (Conger & Lawler, 2009) and, therefore, are prescribed in guidance on good governance (e.g., ASX, 2009; Walker, 2009). Similarly, they can also be a key source of legitimacy and signalling, particularly to investors and stakeholders (Connelly et al., 2011). We have noticed this is particularly the case where there is a concentrated share ownership – say in the case of a
government-owned corporation or company with significant institutional shareholdings.

**Compliance with regulatory or stakeholder requirements**

Regulatory requirements for board evaluations are closely aligned to, but different from, signalling. Whereas signalling is voluntary, mandatory evaluations provide an ends of themselves with recommendations or requirements under various regulatory regimes, codes of conduct and listing rules fast becoming one of the major reasons for a board evaluation (Ingley & van der Walt, 2002). Table 13.1 highlights the widespread recommendation of board evaluations.

However, care should be taken so that compliance does not become the sole driver of the process, as it is seen as the worst motivation for an evaluation (Tricker, 2009). A compliance focus quickly turns an evaluation into a “pesky ‘checklist’ item” and boards fail to spend “the time and effort to conduct a comprehensive assessment process” (Wolf & Stein, 2010: 17). Consequently, there is little benefit as they “skate by with paper-and-pencil surveys comprising recycled checklists cobbled together by another company’s attorney” (Nadler, 2004: 104).

While boards may complain that regulation and standards encourage a tick-the-box approach, it is in fact the boards themselves that make this decision when they adopt “a ritualistic approach to important and substantive governance processes” (Clarke & Klettner, 2010: 9) and effectively ignore the benefits that an effective evaluation can bring will range across the organisation, group and individual level.

**Mechanism to protect directors**

Finally, on a very practical level, evaluations can provide a modicum of protection for individual directors. When successful, evaluations improve the board’s functions, demonstrate due care and diligence to the task and actually safeguard each director’s assets and reputation (Garratt, 2003). As a result, there are also reports in the literature of evaluations decreasing director and officer insurance premiums (Stybel & Peabody, 2005).

Table 13.2 sets out the potential benefits of board evaluation for various aspects of governance.

**DRAWBACKS OR REASONS NOT TO EVALUATE**

Thus far, we have presented board evaluations as a positive step for all boards. However, there is a school of thought that sees them as adding little value (Kazanjian, 2000). While most commentators would disagree with this stance on whole-of-board evaluations (e.g., Sonnenfeld, 2002; Nadler, 2004; Huse, 2007; Charan, 2009), our observation is that criticisms are based on failed implementation rather than a general criticism of board evaluations. For instance, we have already covered off the problems with a compliance-focused evaluation process (see earlier) and we note that criticisms of low value tend to focus on process- rather than content-orientated approaches (e.g., Kazanjian, 2000).

One issue that has been raised by some boards is the legal issue of the discoverable nature of board evaluations. The argument is that to be useful, the board evaluation will need to raise some issues critical of current governance practices. In situations where a nation’s legal code allows for discovery of relevant documents in civil and/or criminal court actions, the existence of a board evaluation could provide evidence for parties bringing an action against the company, board and/or individual directors. There is some merit in this argument. However, on the other hand, boards leave themselves open to criticism in such actions, if they have not undertaken a board evaluation. This can be seen as the board failing to institute a process...
Table 13.2 Potential benefits of board evaluation

<table>
<thead>
<tr>
<th>Benefits</th>
<th>To organisation</th>
<th>To board</th>
<th>To individual directors</th>
</tr>
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<tbody>
<tr>
<td>Leadership</td>
<td>• Sets the performance tone and culture of the organisation</td>
<td>• An effective chairperson utilising a board evaluation demonstrates leadership to the rest of the board</td>
<td>• Demonstrates commitment to improvement at individual level</td>
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<td></td>
<td>• Role model for CEO and senior management team</td>
<td>• Demonstrates long-term focus of the board</td>
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<td></td>
<td></td>
<td>• Leadership behaviours agreed and encouraged</td>
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<tr>
<td>Role clarity</td>
<td>• Enables clear distinction between the roles of the CEO, management and the board</td>
<td>• Clarifies director and committee roles</td>
<td>• Clarifies duties of individual directors</td>
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<td></td>
<td>• Enables appropriate delegation principles</td>
<td>• Sets a board norm for roles</td>
<td>• Clarifies protection of directors</td>
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<td></td>
<td></td>
<td></td>
<td>• Clarifies expectations</td>
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<tr>
<td>Teamwork</td>
<td>• Builds board/CEO/management relationships</td>
<td>• Builds trust between board members</td>
<td>• Encourages individual director involvement</td>
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<tr>
<td></td>
<td></td>
<td>• Encourages active participation</td>
<td>• Develops commitment and sense of ownership</td>
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<td></td>
<td></td>
<td>• Develops commitment and sense of ownership</td>
<td>• Clarifies expectations</td>
</tr>
<tr>
<td>Accountability</td>
<td>• Improved stakeholder relationships, e.g., investors, financial markets</td>
<td>• Focuses board attention on duties to stakeholders</td>
<td>• Ensures directors understand their legal duties and responsibilities</td>
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<td></td>
<td>• Improved corporate governance standards</td>
<td>• Ensures board is appropriately monitoring organisation</td>
<td>• Sets performance expectations for individual board members</td>
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<tr>
<td></td>
<td>• Clarifies delegations</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Decision making</td>
<td>• Clarifying strategic focus and corporate goals</td>
<td>• Clarifying strategic focus</td>
<td>• Identifies areas where director skills need development</td>
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<td></td>
<td>• Improves organisational decision making</td>
<td>• Aids in the identification of skills gaps on the board</td>
<td>• Identifies areas where the director’s skills can be better utilised</td>
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<td></td>
<td></td>
<td>• Improves the board’s decision-making ability</td>
<td></td>
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<tr>
<td>Communication</td>
<td>• Improves stakeholder relationships</td>
<td>• Improves board–management relationships</td>
<td>• Builds personal relationships between individual directors</td>
</tr>
<tr>
<td></td>
<td>• Improves board–management relationships</td>
<td>• Builds trust between board members</td>
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<tr>
<td></td>
<td>• Improved board–CEO relationships</td>
<td></td>
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<tr>
<td>Board operations</td>
<td>• Ensures an appropriate top-level policy framework exists to guide the organisation</td>
<td>• More efficient meetings</td>
<td>• Saves directors’ time</td>
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<td></td>
<td></td>
<td>• Better time management</td>
<td>• Increases effectiveness of individual contributors</td>
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that is widely seen as conducive to good governance. In this legal sense, a board may be damned if it does an evaluation, which reveals governance issues, but conversely may be damned if it cannot present evidence of a rigorous review. Our view is that generally boards should not be concerned with undertaking rigorous reviews, but should ensure that they have taken action on any issues the review highlights. In this way, the board can demonstrate that it is taking its governance responsibilities seriously and is engaged in a process of continual self-improvement.
Individual director evaluations are a more controversial subject, with varying views on whether they are useful (Clarke & Klettner, 2010). Importantly, individual director evaluations often rely on the views of peers and this has the potential to undermine a director’s independence (Clarke & Klettner, 2010). Similarly, poor evaluations can overemphasise the output of a homogeneous “perfect” director at the expense of how the individual contributes to effective governance (see our earlier discussion on the individual- vs group-level of analysis).

Even when there is agreement that a board evaluation can add value, it will often meet with resistance from directors (Ingley & van der Walt, 2002). The most commonly reported source of resistance involves the evaluation undermining the working relationships of the board. Directors fear that an evaluation will open a Pandora’s box of governance issues and undermine board cohesion (Ingley & van der Walt, 2002) and disrupt the boardroom dynamics (Kazanjian, 2000). Other reasons cited for resistance include a fear of alienating directors, objection to the amount of time the review will take, fear of litigation arising because of the review (e.g., Stybel & Peabody, 2005) and concerns with the “accuracy and meaningfulness” of evaluations (Ingley & van der Walt, 2002: 173).

While some of these concerns may be justified, our experience is that they are all manageable and that the major source of resistance is that a board evaluation can be particularly daunting for the individual. Many directors may not have faced an evaluation for a long time (Steinberg, 2000) and may fear that any assessment will find them lacking (Garratt, 1996). This creates a threat to their reputation (Stybel & Peabody, 2005; Behan, 2006), particularly if they are very senior and the results will be disclosed in any way (Kazanjian, 2000), even to other directors. Thus, it is important for a review to carefully consider how the results will be used and who they will be fed back to during the process.

Setting the objectives – agreeing the why

While there are many positive reasons for undertaking a review, boards also need to understand the constraints. Key factors include the context of the organisation – the scale of the performance problem (if any), the size of the board, stage of organisational life cycle, changes in the firm’s environment and so on (Kiel & Nicholson, 2005). Feasibility will also play a role, and the board will need to consider the scope of the review and resource implications. Major resources will be money, a reviewer with sufficient skills and the time availability of the reviewer and participants.

On a practical level, it is important that all board members understand this rationale. Normally, this involves the delegated individual (the chair or lead independent director) or group (the nominations or governance committee) documenting the objectives for the review and obtaining sign off from the board. With the objectives or rationale of the evaluation in place, the process is ready to move on to the “what” of the evaluation.

What will be evaluated?

As with the other key decisions in the process, deciding what will be evaluated depends on the purpose and scope of the review. While evaluations will have a targeted objective (e.g., addressing a specific, known problem in governance), the complexity of possible sources and solutions nearly always requires a broad selection of topics on which data will be collected. Most governance issues involve complex interactions between the board’s composition, relationships (e.g., between the board and management) and supporting policies, procedures and processes (Nicholson & Kiel, 2004; Huse, 2007). Consequently, most evaluations do not involve a single issue, but rather a systematic review of the likely causes and consequences. This ensures the process is broad
enough to: (1) clearly articulate areas for improvement (or any problems); (2) identify the underlying mechanisms (i.e., source of the problem or how to make improvements); and (3) test potential solutions (Nicholson & Kiel, 2005). Similarly, if the review’s objectives are to provide an overall check-up (or benchmark) then the review should focus on a wide range of areas. This will allow the process to collect information across the levels of analysis described earlier in the chapter and the associated wide variety of areas for improvement.

For these reasons, board evaluations generally use some form of governance “best practice” framework (Kiel & Nicholson, 2005). There are many such frameworks available. In addition to the models detailed earlier in this chapter, frameworks include Carver’s Policy Governance model (e.g., Carver & Carver, 1997), Kiel and Nicholson’s (2003) Corporate Governance Charter framework, and regulatory frameworks and advice such as The UK Corporate Governance Code (Financial Reporting Council, 2010), the OECD Principles of Corporate Governance (OECD, 2004) and the Australian Securities Exchange (ASX) Corporate Governance Council’s (2010) Corporate Governance Principles and Recommendations. While a detailed review of each is beyond the scope of this chapter, they provide a sense of topics on which boards can focus.

Selecting a framework provides a focus for the evaluation. The next stage involves translating the framework for the objectives of the review and the context of the specific board. An example might assist: say a board wants to review its composition (objective of the review) and selects Huse’s (2007) value-creating value-adding board as their framework. The task then becomes developing an idea of the data the review needs to collect. This is often accomplished by developing a series of questions that we might want answered. An example is provided in Table 13.3, where an extract of the elements of the value-creating value-adding board framework are translated into questions to guide a review of composition. As this example demonstrates, the combination of a framework and clear objectives leads to a successful evaluation.

Deciding the topics on which to concentrate is a critical component of the evaluation design. Yet, the evidence from practice suggests that boards often do not agree what will be evaluated in terms of both agreed target activities and clarity of expectations around those activities. For instance, in a survey of companies from the FTSE 350, Dulewicz and Herbert (2008) report that an agreed list of performance criteria were used in only 62% of cases. To address this concern, the individual running the process treads a delicate balance between providing sufficient detail to meet the objectives of the review, while also ensuring the project is manageable with the resources available to the organisation and board.

Who will be asked?

The next step in the process involves deciding on data sources – Who will be asked to provide a view on the board’s effectiveness? As indicated earlier, evidence suggests that most evaluations are self-evaluations based on director feedback (Spencer, 2007; Dulewicz & Herbert, 2008; Roy, 2008), which are sometimes referred to as 180-degree processes (Blake, 1999). While a self-evaluation allows a board to ask itself how it is contributing to organisational effectiveness (Stybel & Peabody, 2005), there are major weaknesses to overcome unless there are other inputs to the process – it is almost impossible to fully evaluate performance (Epstein & Roy, 2004b) and self-evaluations are best used when the individual(s) involved have high levels of self-awareness. It is our experience that the board as a whole is often unable to assess its task performance. Quite simply, the board is doing all it can to carry out its role and believes it is executing its roles and tasks appropriately – if they thought they could do things better, they would change things.
Table 13.3 Key questions

<table>
<thead>
<tr>
<th>Element of framework</th>
<th>Questions</th>
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| Board members        | - Who are the current board members?  
                      - What skills and attributes do they bring?  
                      - Are there any obvious gaps? |
| Interactions         | - Do board members have appropriate relationships and interactions with each other (respect, capacity to disagree, trust, etc.)?  
                      - Does the board have appropriate relationships with management?  
                      - What are the interactions between the board and chair like? The CEO and chair?  
                      - Is information shared in an appropriate way?  
                      - Would changes in the composition improve or undermine these relationships? |
| Structures           | - How does the board structure compare with regulatory and other practice guidelines (e.g., independence, diversity)?  
                      - Would changes in composition address any gaps here? |
| Decision-making      | - Does each director contribute to decision making?  
                      - Is there a free and frank exchange of views on the board? Why or why not?  
                      - Is a change in composition necessary to improve the decision culture? |
| culture              | - Do board members have the same expectations of their role and tasks?  
                      - Do they have the same expectations of the relationships they will have with each other and management?  
                      - Do they have the same expectations of the way board discussions and decisions should take place?  
                      - Do they have the same expectations of how information should be shared?  
                      - Would a change in composition improve these shared expectations? |
| Board task           | - Is the board performing its roles and tasks appropriately?  
                      - Do individual directors contribute to task performance?  
                      - Do directors work well as a team together to execute tasks?  
                      - Could changes to composition be made to improve task performance – and what would they be? |

This is where other internal and external sources of information become crucial. Often referred to as 360-degree feedback (Kiel et al., 2005), they allow the reviewer to corroborate insights and views from board members with others both within and outside the organisation. Internal participants could include senior managers (particularly the CEO and company secretary). Sometimes other management personnel and employees can contribute, if the data sought is about general governance issues (e.g., issues affecting culture), but our experience is that the lower the level of interaction between the board and the participant, the less useful it becomes. For instance, shop-floor employees often have little insight into how the board is performing, so a targeted approach is most useful.

One possible area of sensitivity with using other internal sources involves the possible dynamic it can create, if the board is not ready for full and frank feedback or there is a poor relationship between the board and management. Implemented poorly, feedback from executives can lead to an “us versus them” dynamic; for instance, if there are significant ratings differences on director knowledge or understanding reported (Clarke & Klettner, 2010). Although a potential problem, this can be handled sensitively using alternative techniques (e.g., using interviews rather than surveys) and through ensuring an appropriate feedback loop.

State-of-the art views on board evaluations would also favour both external sources of information and participants (Kiel & Nicholson, 2005; Minichilli et al., 2007; Conger & Lawler, 2009). External sources of information include auditors, financial commentators and institutional investors.
(Tricker, 2009). Depending on the company, government departments, major customers and suppliers with close links to the board may also provide insight (Kiel & Nicholson, 2005). Of course, a constraint of external sources is that they may have little exposure to the board and their responses are often more about organisational performance than board performance. As with non-board internal sources of information, the information source needs to be targeted and relevant, having some knowledge of the actual role the board is playing. Table 13.4 provides a summary of possible participants in a review, as well as the benefits and drawbacks of each particular participant.

An important and common question often arises around whether retiring or new directors should participate in board evaluations. Retiring directors are thought to be less committed and new directors may lack the necessary insight into how the board operates. Again, consensus from the field indicates that both retiring and new directors can assist, as they can provide different perspectives on the issues (Wolf & Stein, 2010).

Once the advantages and disadvantages of participation have been assessed, the decision on who should participate involves understanding:

1. Who has the knowledge required to inform the questions formulated in the previous step.
2. Whether the board is open to hearing the view of that person/group (even if anonymous).
3. What the potential impact might be for the person or group who will be asked.
4. Whether it is feasible to collect this information (resources, access and so on).

Thus, there is no standard list of participants for a review – rather, it requires a considered review of context, objectives and feasibility.

**What techniques will be used?**

Method selection is critical to an effective board evaluation (Behan, 2004). Since evaluations are a specific context for social science research, determining a suitable fit between research aim and research method is essential. Our observation is that this is an underestimated aspect of board evaluations, as practitioners often lack any grounding in research methodology and fail to consider the strengths and weaknesses of different techniques and approaches. Alternatively, many academics are trained in a single research tradition (or even technique) and/or have a single area of investigation that drives their method decision. In both cases, those developing the process may pay insufficient attention to the scope of the evaluation and, to some degree, come with their preprepared tools or approach. As the saying goes, if you only have a hammer, everything looks like a nail.

The most basic question in method selection involves the decision to use quantitative, qualitative or mixed (i.e. combined) methods. For most people, research is associated with experiments, statistics and careful measurement. These generally involve quantitative methods, or approaches that allow the researcher to precisely measure the topic of interest (often called a construct) and identify the strength of relationship between that construct and other constructs of interest. In contrast, qualitative methods use rich or thick data from which the researcher draws conclusions. Rather than focus on measuring quantity, qualitative methods focus on the nature or quality of the phenomena under study. For example, if we were interested in “board contributions,” and were using a quantitative method, we could measure the number of minutes a director spent talking in a board meeting or the percentage of meetings he or she attended. A qualitative method would take a different approach and might involve watching the director in question, interviewing her or his colleagues and reviewing the minutes of previous meetings. Based on these sources, it may be possible to conclude whether the director was a good or poor contributor. The difference between the two approaches – possessing the quality of being a “good contributor” versus the precise
Table 13.4 Who has the knowledge?

<table>
<thead>
<tr>
<th>Category</th>
<th>Information sources</th>
<th>Knowledge benefits</th>
<th>Potential drawbacks</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Internal sources</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Board members</td>
<td>• Should have key knowledge on skills, processes, relationships, level of shared understanding</td>
<td>• Suffer from biases (such as groupthink)</td>
<td>• Little understanding of external perceptions of the board</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Do not provide a &quot;set of fresh eyes&quot; with which to examine governance processes</td>
</tr>
<tr>
<td>CEO</td>
<td>• Should have a different perspective on all elements of board activity</td>
<td>• Potentially suffers from biases</td>
<td>• Potentially impression manages for the board, particularly on issues of management activities</td>
</tr>
<tr>
<td></td>
<td>• Key insight into the advice role of board</td>
<td>• May have a limited or biased understanding of external perceptions</td>
<td></td>
</tr>
<tr>
<td>Senior managers</td>
<td>• Generally good insights into communication between the board and management</td>
<td>• May not have enough exposure to the board</td>
<td>• May be tainted by internal company politics</td>
</tr>
<tr>
<td>Other employees</td>
<td>• Should have insight into the culture of the organization</td>
<td>• The further removed from the board, the less likely employees can comment on actual performance</td>
<td>• Limited exposure to the board</td>
</tr>
<tr>
<td><strong>External sources</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Owners/ members</td>
<td>• Understand ownership aims</td>
<td>• Will depend on the ownership structure (may be disparate)</td>
<td></td>
</tr>
<tr>
<td>Customers</td>
<td>• Can have unique insights, particularly if the company has very few customers</td>
<td>• Most likely will have little insight into how the board operates</td>
<td>• Potential to &quot;game&quot; the system</td>
</tr>
<tr>
<td>Government</td>
<td>• Can have insightful views, particularly in certain areas of compliance, if these are critical</td>
<td>• Often limited interaction with most companies</td>
<td></td>
</tr>
<tr>
<td>Suppliers</td>
<td>• Can have unique insights, particularly if the company has very few suppliers</td>
<td>• Most likely will have little insight into how the board operates</td>
<td></td>
</tr>
<tr>
<td>External experts</td>
<td>• Useful benchmarking or best practice insights</td>
<td>• May not understand company's context</td>
<td></td>
</tr>
<tr>
<td>Other stakeholders</td>
<td>• Will depend on nature of the company</td>
<td>• Will depend on nature of the company</td>
<td></td>
</tr>
</tbody>
</table>


measurement of an observable fact – is the key distinction, not the data type.

What makes the situation more confusing is that most board research tries to quantify what are essentially subjective assessments. Perception-based research (where we ask governance actors their perceptions of specific events or activities) are qualitative assessments of the phenomena. Whether these questions are asked as part of an interview (where we have the rich data of their open-ended response) or as part of survey (where we reduce the complexity of their response to a point on a predetermined scale), the source of the data is the same – it is a subjective assessment of the enquiry.
In general, quantitative methods are best used when the topic being assessed is well understood, the measurement tools are well used and verified and/or benchmarking or comparison is a key goal. In contrast, qualitative research relies on induction (Glaser & Strauss, 1967; Christie et al., 2000) and so is often best used when conducting exploratory research (e.g., Bowen, 2004) – where you are not sure what the issues are. In practice, most rigorous evaluations involve mixed methods (both quantitative and qualitative data) – generally, a combination of surveys, individual interviews and facilitated group sessions (Behan, 2004).

Moving to the specifics, there are many different approaches used in board evaluations, including questionnaires, interviews (van der Walt & Ingley, 2001), free-form discussions (Wolf & Stein, 2010), “180- and 360-degree” reviews (Blake, 1999), best practice benchmarking (Garratt, 1996; Hawkins, 1997; Davies, 1999; Walker, 1999) and psychometric testing and the use of assessment/development centres (Garratt, 1996; Tricker & Lee, 1997). In the following sections, we outline some of the more popular methods used in board evaluations.

**Surveys**

Surveys or questionnaires are reported as the most common form of evaluation (Clarke & Klettner, 2010). In addition to providing summed ratings of director perceptions, surveys can be examined to look at gaps between current and desired performance or engagement (e.g., Nadler, 2004) to provide greater focus for change. Sometimes this can involve a comparison between board and management perceptions to highlight differences (positive or negative) and/or the similarities or differences between self-perceptions and colleague perceptions (Nadler, 2004).

A key concern is that surveys by themselves may not uncover the key governance improvements required. For example, Behan (2004) reports how in a NASDAQ company experiencing high growth, a standard survey revealed board members had concerns about information flows, board leadership and corporate strategy, while the CEO reported the board took too long to make decisions. Only a subsequent group discussion (a qualitative group probing of the issue) revealed that the board lacked a sufficient understanding of the corporate strategy to make faster decisions. There are myriad technical difficulties involved in surveys that we have discussed earlier or are beyond the scope of this chapter: for example, measurement error, problems with response bias (scaling difficulties, whether to use an “average” rating of the board and so on) that are usually not considered during the evaluation process.

**Individual interviews**

One of the most prevalent techniques used in board evaluations is interviews with directors. This may be a formal process, with an independent advisor conducting the interview, or it may take the form of an informal “chat with the chairman” organised prior to a board meeting. Both share the characteristics of an individual session focused on identifying strengths and weaknesses of the governance of the company. Important aspects to the interview involve deciding (1) who will conduct the interviews, (2) the line of questioning or format of the interviews and (3) the level of confidentiality.

Deciding who will conduct the interview will likely be determined by the answer to who is conducting the review. Nevertheless, it is important to recognise that interviewing, particularly for research purposes, is a complex skill that can be underestimated (Kiel et al., 2005; King & Horrocks, 2010). Building rapport and trust with directors will go a long way to ensuring full and frank views are collected during the process. Similarly, an interviewer who is the cause of governance problems (e.g., a dominant chair) is an obvious concern.

Interviews can take many forms from structured (i.e., only asking specific, pre-written questions) to unstructured (i.e., no specific questions) (Kiel et al., 2005; King & Horrocks, 2010). The level of structure is
best aligned with the aim of the evaluation: more structure is generally useful where the evaluation is focused on specific issues (e.g., a known problem), whereas less structure is generally more useful where little is known about the performance of the board.

A final factor to consider is the confidentiality of interview material. Often it is necessary to balance the feedback with the confidentiality promised as part of the process, and this is a key practical and ethical consideration for the process. While promising confidentiality can engender trust and forthright responses, it can make reporting the findings difficult. One way to balance this issue is to assure participants of non-attribution, but not confidentiality. The interviewer can also provide a space for “off the record” comments that the reviewer can use to find other information.

**Group interviews**

It is also possible to collect the views of directors in a group setting. This can be done as a separate component of a board meeting or at a dedicated setting. Boards that use this method often conduct it as part of a regular annual strategy and/or reflection setting. Obviously, issues of the structure of the session (e.g., topics raised) are important, as is the session facilitator. Given that group sessions (such as focus groups) are more complex than one-on-one sessions, our suggestions regarding sufficient facilitator skills and the structure of the session are even more important. Obviously, it is nearly impossible to ensure confidentiality during these sessions, although we are aware of some reviews using networked computers to try to achieve this through directors typing in anonymous comments (which raises its own challenge).

A major advantage of the group interview approach is efficiency – the facilitator and participants dedicate time in the same session, and there is often little need for preparation by the board members (Behan, 2004). It also can provide collaboration and corroboration of insights in real time, so that the group can move quickly to an agreed position on the issues facing the governance of the organisation. It serves as a positive team-building exercise at the same time as data are collected (Behan, 2004).

As with the other techniques, there are significant downsides as well. The most crucial difference between group and individual interviews is the obvious impact of the group dynamic on feedback and insights. The group approach works best where board members share mutual respect and trust (Behan, 2004). While there might be an obvious concern with how forthright participants may be in a group setting (particularly around sensitive issues), there are other less obvious downsides. For instance, the ability of each individual to contribute is constrained, the known group effects of “piggybacking” (i.e. the first idea mentioned tends to focus participants on that issue, rather than a range of issues) as well as the potential effects of impression management (Goffman, 1959) and power distance (Hofstede, 2001) (e.g., not wanting to appear foolish in front of colleagues) means that group interviews or focus group approaches need to be carefully considered and facilitated.

**Observation methods**

Researchers argue (e.g., Pettigrew, 1992; Roberts et al., 2005; Brundin & Nordqvist, 2008; Petrovic, 2008; Huse, 2009a) that the future research on boards should focus on the actual behaviours demonstrated in the boardroom and this should be explored by being there and observing. This will further help to understand what directors actually do and how decisions are made (Pettigrew, 1992). While gaining access to boardrooms is not easy, Huse (1995), Samra-Fredericks (2000), Leblanc and Schwartz (2007) and Brundin and Nordqvist (2008) show that it is possible to study boards at work.

Observation involves reviewing the board in action and is particularly useful when the board is interested in an external review of the dynamics of the board team or group. Rather than dealing with perceptions (and historical perceptions at that), the data is
direct and to a large degree untainted by the views of participants. While it is possible for insiders or participants to conduct this review (e.g., we know of several boards where there is a review of the meeting efficacy at the conclusion of each meeting), perhaps the most useful approach involves using a trained observer to sit in on one or more meetings and using techniques well developed in sociology and anthropology (e.g., Douglas, 1976; DeWalt & DeWalt, 2002) to draw conclusions related to the objectives of the board review.

Observation most often occurs in one of two instances: either a participant (or insider) or an independent, trusted advisor. Again, boards often need to consider the specialist skills required to interpret group dynamics as well as the potential bias that might shape a participant–observation approach. We also note that it is possible to video and code board meetings (a current research focus of the authors), which can provide interesting quantitative data to highlight specific issues or corroborate qualitative insights. Figure 13.12 provides an example of meeting observation outcomes.

**Document review or analysis**

Another potentially useful technique used for evaluations is a document review. Analysis of board and committee agendas, board papers, meeting minutes, director attendance records and other documents can provide meaningful insights into the work of the board and even the contribution of individual directors (Tricker, 2009). Governance documentation highlights the areas the board emphasises. Gaps in the documentation can provide insights into the sophistication of the board and its understanding of issues such as its legal responsibilities. The flow of activities across time can also highlight if boards follow through on decisions and if matters are dealt with in a systematic way.

Board papers also provide an important comparison point for the opinions of directors that might be evident in other techniques. For instance, document reviews can be used to compare what the board says it should be doing with the record of its work (Behan, 2004). If the board believes its involvement in strategy is the most important aspect of its work, is this reflected in the minutes

![Figure 13.12 Meeting observation – Number of times participants spoke](attachment:5680-Clarke-Ch13.indd.png)
and board papers generally? How – or if not, why not? Thus, document reviews can form an important component of a rigorous review, particularly when used to identify differences between perceptions and records.

**Psychometric testing and other instruments**

Given that directors’ personalities are often seen as a key factor in boardroom behaviours (ICSA, 2009), it is interesting that standardised tests and instruments are not used more during board evaluations. While we have been involved in hundreds of evaluations, we can only think of a handful of occasions where they have been employed. Dulewicz and Herbert’s (2008) findings corroborate this, as only one of the 29 companies they surveyed had used psychometric testing. While a definite proportion of directors do not subscribe to these tools, we conjecture that for most high-status individuals, these instruments are extremely threatening, as they fear “not measuring up” or having their weaknesses exposed.

**Analysis**

In addition to the techniques, the review needs to have an appropriate analysis of the data collected. Often, understanding the results requires reviewing and coming to an initial conclusion about the pattern of responses as much as the averages themselves (Wolf & Stein, 2010). A response to a survey item that yields three “strongly agrees” and three “strongly disagrees” has the same average as a board that has six members rate “neither agree nor disagree.” Clearly, these responses have different conclusions.

A more subtle analysis issue involves drawing unsupported conclusions from quantitative data – for instance, survey results or measures of contribution. Just because a director comes to every meeting, does not mean he or she contributes more than a director who has missed a meeting or two during the year. Thus, a process that involves multiple techniques reviewed by experienced individuals is more likely to yield valid and valuable conclusions.

**Techniques – evidence from the field**

While there is a wealth of techniques available to boards seeking a robust evaluation, evidence suggests that practice is dominated by surveys administered to people within the organisation. Table 13.5 provides a summary of the current practices of more than 820 US boards that responded to the Annual Corporate Directors Survey conducted by PricewaterhouseCoopers (2010). Column one clearly highlights that more than two out of every three board evaluations used surveys and only one in three used interviews to gather data. A very small 4% used some other method and at least 90% of boards only used data from participants within the organisation. The dominance of one technique and potential bias from using internal participants is a point for reflection for the field.

**Who will be evaluated?**

While most board evaluations involve reviewing the board as a whole, there are several other options surrounding the selection of the individual or group that can form the basis of a review. These are summarised in Figure 13.13. Generally, boards consider the work of the group and its subgroups (committees) as well as sometimes focusing on individuals holding specific positions (such as the chair or lead independent director or company secretary) and/or individual directors.
Who will undertake the review?

Another critical decision facing the board is who will conduct the review. While a review is often best performed by the board itself, it does require “facilitation that provides expertise, challenge and objectivity” (Aronson 2003: 8).

While there are at least five key categories of facilitator, the major decision involves the choice of an internal or external facilitator. Internal reviews respect the board’s authority, are more likely to provide directors confidence surrounding the confidentiality of the process (Kiel et al., 2005) and are likely to cost less. All of these are important considerations when making the decision.

There are, however, several limitations to an internally conducted review. The internal reviewer may lack the skills required (e.g., interview technique, survey design), they are likely to have a bias (often unconscious) that carries over into the assessment and it is a less transparent process where the review process is carried out by one of the board’s own. Perhaps most significantly, the review is likely to achieve little if the reviewer (e.g., the chair) is the source of much of the problems or it may not be appropriate given the objectives of the review. For example, a review focused on benchmarking requires external data that an internal reviewer is unlikely to possess and/or the review may mandate or recommend an external facilitator.

An external facilitation, while more costly, can offer a number of advantages. First, a good external facilitator is more likely to have undertaken a significant number of reviews and will often provide important insights into techniques, comparison points and new ideas. Second, an external party often aids transparency and objectivity, which can be particularly important for boards with an external constituency interested in the review (for instance, if they are a government-owned corporation). Third, a good external party can play a mediating role for boards facing sensitive issues through being the messenger for difficult issues involving group dynamics and egos.

As with internal reviews, there are a number of potential downsides to an external facilitator. First, there is a great deal of variability in consultants, and the board needs to have confidence in the reviewer’s ability and that they will handle the review in a supportive manner (Clarke & Klettner, 2010). Second, the reviewer needs to be able to establish the confidence of the board, so that they will be honest in their responses. Third, the use of an external party is likely to involve greater cost for the organisation than an internally conducted review. An elaboration of the benefits and downsides in the
Table 13.6 Chair, non-executive director and committee evaluations

<table>
<thead>
<tr>
<th>Chair</th>
<th>Non-executive director</th>
<th>Committee</th>
</tr>
</thead>
<tbody>
<tr>
<td>Advantages</td>
<td>Disadvantages</td>
<td>Advantages</td>
</tr>
<tr>
<td>• Part of leadership role – clear acceptance by board members</td>
<td>• Possible bias</td>
<td>• Clear accountability</td>
</tr>
<tr>
<td>• Clear accountability</td>
<td>• Concentration of power, particularly if the CEO is chair</td>
<td>• More independent view</td>
</tr>
<tr>
<td>• Can align process with overall board agenda</td>
<td>• Heavy workload</td>
<td>• More time to devote to task</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Other leadership experiences/skills</td>
</tr>
</tbody>
</table>


choice of who should conduct the review are provided in Table 13.6.

Interestingly, national context appears to play a role in who conducts the review. In countries with a separate CEO/chair, the chair or independent facilitator often plays a key role. For instance, Clarke and Klettner (2010) report that in Australian companies it is common for the chair to lead the process. In contrast, large US companies nearly always have the governance or nominating committee conduct the review (Clarke & Klettner, 2010; Roy, 2008).

The majority of the normative literature generally highlights that the chair will most often conduct the review (e.g., Kiel & Nicholson, 2003), an approach that has been criticised as lacking the objectivity required by a serious review (Tricker, 2009). Thus, there is a distinct trend, reinforced by regulatory and code guidance, to use external parties to conduct the process. For example, the UK Corporate Governance Code recommends that an external facilitation should occur every three years (Financial Reporting Council, 2010: B.6) and the OECD Steering Group on Corporate Governance (2010) recommends the board be supported periodically by external experts (Kirkpatrick, 2009). This matches the Australian experience that outside facilitation can be very valuable, but may not be necessary every time (Clarke & Klettner, 2010). Practically, it appears that, in Australia, around half of listed companies use an external facilitator, at least periodically (Clarke & Klettner, 2010).

What to do with the results

Collecting and analysing the results is not the end of the process; rather, it is critical that the board decides what to do with the data. A board’s response should be based on how to satisfy the original objectives of the review. In most cases, the objectives involve the board reviewing the results and agreeing targeted actions for governance improvement, particularly when the focus of the review is on whole-of-board improvement.

In the case of individual director evaluations, what to do with the results should again reflect the objectives. Most individual director evaluations are formative – they concentrate on providing the individual director with feedback. In these cases, the results are likely not shared with the whole board. Instead, they are the subject of discussion between the board chair (or process facilitator) and each individual director, which “(1) significantly reduces the threat of a review to the individual and associated resistance to the process, (2) provides an appropriate venue for difficult performance
discussions, if they are necessary, (3) maintains the key aspect of objectivity and accountability and (4) aligns with good performance management practice and respects each individual’s integrity.

Often the board will communicate aspects of the review to different parties, particularly where the board has agreed that governance improvement requires the group. For example, if an area for improvement is the board–management relationship, the relevant results will generally be shared with management. Sometimes this may also involve a regulator or key shareholder.

Disclosing results more broadly is a topic of increasing importance. This needs to be agreed prior to commencing the review, as full and frank views are likely to vary with the confidentiality assured to participants. Often the regulatory regime of a company will specify that disclosures need to take place (e.g., see the Walker Review, 2009). These requirements and recommendations are put in place to improve transparency and accountability; however, recent evidence indicates that these rules-based regimes encourage standardised responses, and even in principles-based regimes like the UK and Australia disclosure is often similar (Clarke & Klettner, 2010). This is because excessive disclosure is seen as problematic, since it involves personal sensitivities and can inhibit the work of the board (Clarke & Klettner, 2010).

Interestingly, there are mixed views on the disclosure of even non-sensitive aspects of board evaluation, and it is dependent on the reviews objectives and stakeholder group to whom disclosure is made. Feedback from boards indicates a reticence to communicate, because it can inhibit a rigorous review and because they see it as adding little value. Thus, a willingness to disclose information depends on who it might be disclosed to, with Dulewicz and Herbert (2008) reporting that virtually all boards think that disclosure of board evaluation results to suppliers, customers, employees, the media and banks or lenders is inappropriate. A minority believed it desirable to disclose the results to senior management (29%) or major institutional investors (34%).

Consequently, those boards that do disclose results more broadly tend to divest generic information with little insight for those interested in the board’s work in this area (Roy, 2008). For example, in a detailed review of 30 large companies by Clarke and Klettner (2010) only eight (just over a quarter) reported outcomes and, of these, some three (or 1 in 10) gave examples of specific actions taken. While there is little investigation in the topic, disclosure of evaluation results does not appear to be a major concern for key stakeholders. For instance, Australian fund managers report they see little value in improving this disclosure (Clarke & Klettner, 2010).

Getting practical – implementing a review

Thus far, we have concentrated on outlining trends in board evaluations, the major challenges involved in conducting an effective evaluation and a review of the key decisions that are required. In this final section, we outline major implementation issues for boards – how to use a single evaluation as part of a system of continuous improvement.

The evaluation cycle

Board evaluations are not standalone processes, but rather form part of an integrated, evolving cycle of corporate governance accountability and improvement (Aronson, 2003). Effective evaluations require the board to set annual objectives, collect, disseminate information on progress toward the objectives, then judge performance, and make adjustments on an ongoing basis (Conger & Lawler, 2009).

Agree standards

Since the role of the board will vary, so should those performance criteria or agreed standards (Collier, 2004). For instance,
different board compositions work better under different environmental conditions (Rost & Osterloh, 2010) and it has long been recognised that a company’s context will affect its role set (e.g., Zahra & Pearce, 1989). Thus, the first step in an evaluation is to be clear what is expected of the director, preferably in the letter of appointment or similar (Tricker, 2009), as this can form the basis for the standards investigated in an evaluation. Similarly, it is important that the board agree the desired function of the group as the starting point for assessment (Blake, 1999).

Our experience is that this step is often not carried out – and is a key stress point in evaluations. Without agreed standards, different people have different ideas on what they and the board should be doing. As Vanden Berghe and Levrau (2004: 471) report, they found it “striking to observe the different and even contradictory responses of directors who are members of the same board” around the issues involving board evaluations.

**Agree the broad cycle frequency and focus**

In addition to the standards, boards need to have a sense of the frequency and pattern of their reviews – how they will cycle through the various important aspects of governance over time. Most boards undertake an annual evaluation process – for example, Clarke and Klettner (2010) report 70% of their sample undertook an annual review.

However, an annual review does not make sense for some elements of governance. For instance, if a remuneration committee meets three times a year, they could conceivably spend the first meeting discussing what they thought the process should include, the second meeting carrying out the review and the third discussing the results. Evaluation would be a constant agenda item. Instead, many organisations have a changing approach for evaluation – for example, BHP Billiton alternates whole-of-board evaluations one year with individual director evaluations the next (BHP Billiton, 2010: 136). Similarly, smaller update or check-in evaluations undertaken in-house can be alternated with a rigorous extensive review conducted by an external party every two or three years. Approaches such as these are made to balance the resource implications of conducting an evaluation with rigour.

**Agree the implementation and integration process**

Another key to success is the implementation of change – or turning the review into positive outcomes and improved performance (Aronson, 2003; Clarke & Klettner, 2010). Research indicates that this aspect of the review could be substantially improved: for example, Nadler (2004) reported that only a quarter of boards conducting a review reported they have a plan to address issues they identify (Nadler, 2004), while PricewaterhouseCoopers (2010) reported that some 14% of respondents made one or more major changes based on their evaluations.

Along with the implementation of any recommendations for change, the results of any board evaluation process need to be integrated with other governance process such as director selection or nomination processes, or orientation and education programmes (Roy, 2008), since an evaluation can inform these areas.

**CONCLUSION**

As effective corporate governance has become a major concern of governments, investors, academics and directors themselves over the past two decades, so too has interest in board and director evaluations. Board evaluations are now part of the governance landscape for a wide range of boards in many countries and are not just confined to large publicly listed corporations. They are also seen as a valuable tool for non-profit boards and boards in the government sector whose increasing importance can be seen in
the significant increases in adoption of evaluations over the past few years.

Experience has shown that board evaluations require a different approach to the managerial performance assessments, which are now a routine process in many organisations. Board evaluations differ because of the unique nature of the board as a decision-making group: while the board is accountable to the organisation’s members, only the board members really know what goes on inside the boardroom, leading to issues as to whose views are taken into account in the evaluation and the use of the evaluation outcomes after the process is completed.

What has become apparent over the past two decades is that there are a multitude of approaches to (and techniques of) board evaluations. These range from the chair’s chat with the board to full-blown, consultant-conducted reviews that involve questionnaires, individual interviews with directors and others, who have insight into the board processes, as well as an extensive discussion of the results with the board. In this chapter, we have set out the key questions that any board needs to ask itself when setting out to undertake an effective board evaluation. We believe this to be a useful model and framework for understanding board evaluations.

This chapter has also highlighted a number of the theoretical issues related to board evaluations. These issues include: having a model of how boards work, which will inform the approach to the board evaluation; the unit of analysis; the appropriate use of scales; the difficulties stemming from the psychological construct of illusory superiority and consequent issues to do with the reporting and interpreting the results; and attempts at benchmarking board performance. A further significant problem is that the inclusion of board evaluations in various codes and other requirements by regulators for companies can lead to a “tick the box” approach whereby boards seek to meet perceived external requirements for a board evaluation at the expense of using these tools to improve their own performance. While these are significant issues, experience from the field suggests that boards are overcoming these issues to provide real and meaningful feedback, which leads to significant improvements in board effectiveness and individual director effectiveness and, ultimately, organizational performance.

We believe that over the next two decades, the processes and application of board evaluations will continue to improve. There are interesting developments in the use of methodologies such as observation to help boards reflect on their own performance. The use of these new methodologies, as well as improvements in existing methodologies such as the use of standardised scales and more rigorous qualitative methodologies such as individual in-depth interviewing, should lead to more effective board evaluations. However, ultimately, the real success of any board evaluation must be the commitment and honesty that all members of the board bring to the process. Boards that seriously seek to improve their performance will do so – while boards which are comfortable with mediocrity will no doubt continue until external pressures bring personnel and structural changes to the board. Unfortunately, these mediocre boards may impose significant costs on their organisations until such change is forced on them.

NOTE

1. This does not mean that the results need to be disclosed, however – see section 5.7 on what to do with the results.

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