This Year's Model: influences on board and director evaluation*

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Over the last few years corporate governance codes and shareholder expectations have increased the need for boards of directors to demonstrate effective leadership, quality decision-making processes and the ability to exercise corporate controls. Shareholders and stakeholders continue to focus on indicators such board structure, composition and non-executive independence as proxies for effectiveness, often without an increased understanding of the environment in which boards of directors make decisions, or the behaviour and dynamics of individuals. In order specifically to address this issue the Combined Code, published in 2003, stated that a board should undertake annually "a formal and rigorous evaluation of its own performance, that of the committees and individual directors" (Financial Reporting Council, 2003, p. 10. The *Combined Code on Corporate Governance*. London: Financial Reporting Council), although it omitted to give formal guidance on evaluation methods, or the disclosure of outcomes to shareholders.

This paper draws on earlier research (Long, 2004) in order to contribute to an improved understanding of the role and effectiveness of board evaluation, and to add to the policy debate by identifying board dynamics which influence the environment in which boards operate. It suggests that the evaluation process should interpret specific influences on the environment in which boards make their decisions – company lifecycle, corporate structure, board culture and embedded process – highlighting distinct board roles and responsibilities, and diverse levels of individual approach, expectation and contribution. The author draws on her work through Boardroom Review to explore ways in which board evaluation can achieve a range of corporate objectives which extend beyond compliance, and encourages boards and their chairmen to adopt a thoughtful and thorough approach to this year's evaluation model.

Keywords: Board evaluation, board effectiveness, board performance, corporate governance, Combined Code

Introduction

Attention to corporate governance, defined by Cadbury (1992) as the system by which companies are directed and controlled, has grown exponentially over the last three decades. Recent corporate governance reforms (Cadbury, 1992; Greenbury, 1995; Myners, 1995; Committee on Corporate Governance, 1998; Turnbull, 1999; Company Law Review Steering Group, 2000; Financial Reporting Council, 2003; Smith, 2003) have affected UK boardrooms in a variety of ways; by increasing the number of independent directors, addressing chairman/CEO duality, and imposing age, term and compensation arrangements for executive and non-executive directors (Daily *et al.*, 2003). The Codes, described as a body of rules which can be over-ridden with explanation, continue to be practised in accord with Cadbury's observation that there is no single right way to govern all companies, and that it is for individual boards to implement those principles most

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appropriate for their particular circumstances (Cadbury, 1997).

Since Cadbury's first Report in 1992, corporate compliance, performance pressures and visibility levels on boards of directors have escalated. International governance principles and structures have begun to converge, influenced by a combination of factors including increasing shareholder activism and scrutiny, the attractiveness of global equity markets and pressure from institutions such as the OECD regarding long-term economic performance and international financial systems (van der Walt and Ingley, 2001). As part of this governance transformation, corporate governance codes and shareholder expectations have encouraged boards of directors to be more engaged, effective and accountable. Described by Demb and Neubauer (1992) as a fountain of power, boards are increasingly expected to demonstrate the quality of their decision-making processes, and their ability to exercise corporate controls (Mace, 1971; Pearce and Zahra, 1992). They are required to understand and interpret the strategic implications of the changing international marketplace, and provide leadership to ensure corporate survival and success, combining a high level of stewardship and oversight of management with specialist expertise (van der Walt and Ingley, 2001). Board responsibilities have widened from meeting basic legal obligations to proving a capability and competence which advances corporate objectives; directors are expected to contribute to the development of strategy, the assessment of executive performance and calibre, the flows of information, control and audit systems, legal and ethical standards and values, and the prevention and management of crises, relying on a sophisticated blend of knowledge, information, power, motivation and time amongst the group within which they operate (Conger *et al*., 1998).

It has been suggested that governance reform is traditionally viewed through the lens of agency theory as a battle between the divided loyalties of the non-executive director, and that instead it should be regarded as a peaceful attempt to enhance both board performance and investor confidence (Roberts *et al*., 2005). In order to achieve these objectives, and demonstrate leadership through reform, UK boards are expected to regularly review their architecture to ensure that it is appropriate for the current and future needs of the business, proving to shareholders and stakeholders that there is an ability, and a willingness, to encourage discussion and facilitate change at board level (Blake, 1999). The exercise is not suggested to be a universal panacea for all board ills, but as one tool in averting a governance failure (Kiel and Nicholson, 2005).

Evaluation within an international context

The rationale for board and individual evaluation has emerged from a wider international debate concerning corporate governance, board performance and director professionalism (Ingley and van der Walt, 2002). The debate has gradually expanded from its original focus on the satisfaction of shareholders and regulators to include the concerns of other constituencies such as customers, employees and the wider community. Consequently boards of directors are, and will be, facing new challenges in the 21st century which demand a greater understanding of technological advances, social pressures and international competitiveness (van der Walt and Ingley, 2001).

As early as 1994, the National Association of Corporate Directors (NACD) in Washington published its *Blue Ribbon Commission on Performance Evaluation of CEOs, Boards and Directors*, followed in 2000 by its Blue Ribbon Commission report on *Board Evaluation: Improving Director Effectiveness*. In 1995 the Toronto Stock Exchange Committee on Corporate Governance outlined the fifth of its 14 best practice guidelines in the Dey Report as:

> *Every board of directors should implement a process to be carried out by the nominating committee or other appropriate committee for assessing the effectiveness of the board as a whole, the committees of the board and the contribution of individual directors. (Toronto Stock Exchange, 1995, para. 5.28)*

Also in 1995 the Vienot Committee, sponsored by two major business associations, the Conseil National du Patronat Francais (CNPF) and the Association Francaise des Entreprises Privées (AFEP), reviewed the principle issues concerning the membership, powers and operations applied by the boards of directors of listed companies in France. Following this review, the Vienot committee released a set of guidelines intended to strengthen investor confidence in the bodies governing the companies in which they were asked to invest, stating:

> *The Committee thus considers that each board should periodically review its membership, organization and operations, and keep shareholders informed of conclusions and action taken. (Vienot Committee, 1995, p. 5)*

In 2000 the German Panel on Corporate Governance made a similar comment following an Organisation for Economic Cooperation and Development (OECD) report during 1999:

> *The Supervisory Board shall subject its activity to a regular (i.e. annual) evaluation to check opportunities for improvements on a continuous basis. (German Panel on Corporate Governance, 2000, p. 9)*

In 2003 the Australian Stock Exchange (ASX) Corporate Governance Council published its Principles of Good Corporate Governance and Best Practice Recommendations, stating:

> *The performance of the board and key executives should be reviewed regularly against both measurable and qualitative indicators. (2003, p. 47)*

Scholars have also noted the need to know more about board conduct; although there have been many reform targets, it has not yet been proven that the most obvious structural characteristics of boards are linked to board outcomes and corporate performance (Hermalin and Weisbach, 2003). The simplistic assumptions of agency theory (based on self-serving agents) have encouraged scholars to develop alternative theories of governance, many of them based on greater attention to the "inner workings of boards" (Pettigrew, 1992; Hermalin and Weisbach, 2003), through the examination of roles and responsibilities, and the dynamics of power, influence, collaboration and control (Roberts *et al*., 2005).

In 1999 Tricker suggested that the low opinions of business practices and company directors, and dissatisfaction among shareholders, were key drivers for the formal introduction of board evaluation. In 2000 Herman and Renz noted that the prescriptive literature indicated that effective boards used recommended board practices, producing evidence that board self-evaluation presented a commitment to performance at the highest level and an insurance policy against leadership changes and times of crisis (Lawler *et al*., 2002). More recently Roberts *et al*. argue that purely theoretical models of board dynamics retain a polarised view of the non-executive role and remain at an empirical distance from board conduct, suggesting that attention to dynamic processes of accountability extend an unnecessarily narrow view regarding non-executive monitoring and control implied within agency theory (Roberts *et al*., 2005).

However, despite suggestions within the literature, and the emphasis on greater professionalism within international guidelines, board architecture is often accused of lagging behind other governance reforms (Orlikoff, 1998) and boards have been slow to adopt recommendations regarding evaluation. Sceptics argue that there is insufficient evidence regarding the value, role and contribution inherent in any perceived link between board evaluation and effectiveness, and a discontinuity between the horizontal approach taken by boards in the method of peer review compared with the vertical appraisal approach usually adopted by executive teams (Ingley and van der Walt, 2002). Furthermore, it is suggested that in an effort to simplify the complicated relationships between corporate governance, board effectiveness and organisational performance, evaluation measurements have been limited to the more simplistic and readily identifiable aspects of board performance, such as proportion of outside directors and attendance of meetings (Cadbury, 1997), ignoring complex but significant concepts such as the calibre of directors, their commercial acumen, ethics and strategic ability (van der Walt and Ingley, 2001).

In order specifically to address the issue of board architecture and composition for UK listed company boards, and emphasise the value of boards as a source of competitive advantage, the Combined Code stated that the board should undertake annually "a formal and rigorous evaluation of its own performance, that of the committees and individual directors" (Financial Reporting Council, 2003, p.10), a theme which persists throughout the principles and provisions in the Combined Code, outlined in Table 1.

The tyranny of indifference

Although the implementation of the Combined Code (2003) has encouraged listed companies to have consistency of structure and operations, and transparency and visibility of best practices, critics claim that it has also created a level of bureaucracy which, apart from cost and time implications, emphasises for the independent director the role of policeman rather than advisor. It is argued that governance codes in themselves cannot guarantee good conduct, and that improvements in corporate governance have no measurable effect on corporate performance, stifling enterprise and entrepreneurialism whilst proving ineffective in preventing future malpractices (Stiles and Taylor, 1993). Furthermore it is possible that governance structures have a natural tendency to embrace those who share the basic values of those who currently operate it, and to reject those who do not (Kay and Silberston, 1995). Increasing demands for transparency from investors, rating agencies and consultancies have resulted in some UK listed

Table 1. Combined Code principles and provisions relating to board evaluation

A.6 PERFORMANCE EVALUATION: MAIN PRINCIPLE:
The board should undertake a formal and rigorous annual evaluation of its own performance and that of its committees and individual directors.

Supporting Principle: Individual evaluation should aim to show whether each director continues to contribute effectively and to demonstrate commitment to the role (including commitment of time for board and committee meetings and any other duties). The chairman should act on the results of the performance evaluation by recognising the strengths and addressing the weaknesses of the board and, where appropriate, proposing new members be appointed to the board or seeking the resignation of directors.

Code Provision: A.6.1 The board should state in the annual report how performance evaluation of the board, its committees and its individual directors has been conducted. The non executive directors, led by the senior independent director, should be responsible for performance evaluation of the chairman, taking into account the views of executive directors (pp. 10–11).

A.7 RE-ELECTION: MAIN PRINCIPLE:
The board should ensure planned and progressive refreshing of the board.

Code Provisions: A.7.2 The chairman should confirm to shareholders when proposing re-election that, following formal performance evaluation, the individual's performance continues to be effective and to demonstrate commitment to the role.

Schedule C: DISCLOSURE OF CORPORATE GOVERNANCE ARRANGEMENTS: The annual report should record: how performance evaluation of the board, its committees and its directors has been conducted (A.6.1) (p. 23). The board should set out to shareholders in the papers accompanying a resolution to elect or re-elect: on re-election of a non-executive director, confirmation from the chairman that, following formal performance evaluation, the individual's performance continues to be effective and to demonstrate commitment to the role, including commitment of time for board and committee meetings and any other duties (A.7.2) (p. 24).

GUIDANCE ON THE ROLE OF THE CHAIRMAN
Specifically, it is the responsibility of the chairman to: ensure that the performance of individuals and of the board as a whole and its committees is evaluated at least once a year (p. 61).

SUMMARY OF THE PRINCIPAL DUTIES OF THE NOMINATION COMMITTEE
The committee should:

- before making an appointment, evaluate the balance of skills, knowledge and experience on the board and, in the light of this evaluation, prepare a description of the role and capabilities required for a particular appointment;
- review annually the time required from a non-executive director. Performance evaluation should be used to assess whether the non-executive director is spending enough time to fulfil their duties;
- regularly review the structure, size and composition (including the skills, knowledge and experience) of the board and make recommendations to the board with regard to any changes;
- keep under review the leadership needs of the organisation, both executive and non-executive, with a view to ensuring the continued ability of the organisation to compete effectively in the marketplace (p. 67)

PERFORMANCE EVALUATION GUIDANCE
The Code provides that the board should undertake a formal and rigorous annual evaluation of its own performance and that of its committees and individual directors. Individual evaluation should aim to show whether each director continues to contribute effectively and to demonstrate commitment to the role (including commitment of time for board and committee meetings and any other duties). The chairman should act on the results of the performance evaluation by recognising the strengths and addressing the weaknesses of the board and, where appropriate, proposing new members be appointed to the board or seeking the resignation of directors. The board should state in the annual report how such performance evaluation has been conducted. It is the responsibility of the chairman to select an effective process and to act on its outcome. The use of an external third party to conduct the evaluation will bring objectivity to the process. The non-executive directors, led by the senior independent director, should be responsible for performance evaluation of the chairman, taking into account the views of executive directors. The evaluation process will be used constructively as a mechanism to improve board effectiveness, maximise strengths and tackle weaknesses. The results of board evaluation should be shared with the board as a whole while the results of individual assessments should remain confidential between the chairman and the non-executive director concerned (p. 77)

Adapted from the Combined Code (Financial Reporting Council, 2003) companies answering more than 200 questionnaires a year on governance and ethical matters (Tucker, 2004), and the creation of sub-committees is both time consuming and potentially less interesting than the role of strategic decision making (Pye, 2001a).

The concept of board evaluation has met with particular resistance; directors remain either unprepared or unconvinced of the benefits gained from evaluation, and are conscious of the difficulties concerning independent judgement and objectivity, the ability to benchmark, transparency and clarity of process, personal bias and existing sensitivities. Potential benefits such as improved leadership and teamwork, clarity of roles and responsibilities, improved accountability, decision-making and delegation, and enhanced communication and operations are countered by fears concerning operational disruption, board dysfunction, and individual humiliation and exposure. Critics argue that board cohesiveness, defined as the degree of attractiveness and longevity of board members (Forbes and Milliken, 1999), may be threatened through the evaluation process, damaging the ability for members to work together. There are practical concerns; evaluations are accused of being process orientated and time consuming for executives. Chairmen and company secretaries rarely have the specialised knowledge to conduct evaluation processes effectively, and thus are less able to facilitate an improvement in individual and group dynamics. Companies are suggested by their boards to be too early in their lifecycle, too unstable or too occupied to risk board distraction (Kazanjian, 2000). Furthermore outsiders, who may be more independent, objective and knowledgeable, are treated with suspicion.

Individual evaluation gives rise to even greater angst. Critics argue that assessment of individual directors might imbalance contribution and risk inappropriate interpretation (Tricker, 1999). Assessments are assumed to cause embarrassment, particularly for experienced directors who have not previously been subjected to performance appraisals (Steinberg, 2000), and methods, such as 360 degree reviews and benchmarking against best practice, are unfamiliar and uncomfortable. Directors may feel that they have reached a stage in their lives which is beyond reproach or examination, and that shareholders should vote for or against individual appointments using more traditional methods such as formal voting mechanisms and share transactions (Kiel *et al.*, 2004). Others fear that evaluation opens a Pandora's box, giving undue influence to corporate politics (Ingley and van der Walt, 2002) and overlooking specific and diverse contribution (Conger *et al.*, 1998), as well as potentially exposing directors to legal liability through disclosure (Kiel *et al.*, 2004). Furthermore fellow directors may not be effective in evaluating each other, due to the infrequent nature of meetings, differing levels of contribution and a natural hesitation to criticise colleagues (Cascio, 2004).

There is some foundation for these arguments. Boards have unique competencies and requirements, and respond to diverse demands of stakeholders, economic cycles, maturity levels, operational issues and locations in different ways (Conger and Lawler, 2001). Board interaction differs from other corporate teams, assuming a diverse range of responsibility levels (Levrau and Van den Berghe, 2004); there have been a variety of complex roles identified in the literature for executive and non-executive directors, chairmen and boards which do not fit tidily into an evaluation template or measurement scale. Recent literature has continued to investigate the complex and wide-ranging individual characteristics needed by board members, including independence of thought and action, analytical competence, the ability to understand a variety of perspectives and diversity of board issues, the aptitude for reflection, debate and scenario development, communication skills, the ability to develop and encourage others, and, perhaps most difficult to measure, a high level of individual integrity and moral courage (Davies, 1999).

This year's model

Although UK listed company boards are expected to regularly review their performance and effectiveness, many boards continue to adopt a minimalist approach. Nevertheless advocates insist that there are a range of benefits associated with a well-conducted review which are beyond pure compliance, including leadership, role clarity, accountability, decision-making, communication and board operations (Kiel and Nicholson, 2005). Directors who dedicate time and resources to evaluation can use the process to enhance their board contribution, as well as demonstrate to shareholders and other stakeholders a standard of excellence and strength of leadership (Kiel *et al.*, 2004). New board directors, particularly non-executive members, are less knowledgeable about the company and the board than their longer standing colleagues (Roberts *et al.*, 2005); evaluation gives them an opportunity to improve their understanding of processes, cultures and dynamics. Furthermore the process provides board members with a rare but legitimised opportunity to question board approach and expectation relating to issues such as the quality of meetings, the composition of the board, the role of the directors and the relationships between members, management and shareholders, creating a catalyst for discussion and change.

In order to conduct an effective review, boards of directors must first embrace the conceptual link between board effectiveness and corporate performance in a way that reflects modern shareholder concerns and beliefs (Hermes, 2002), even though scholarly research has proven inconclusive due to the difficulties associated with performance definition, and the incorporation of a complex variety of corporate influences (Daily and Johnson, 1997; Dalton *et al*., 1998; Bhagat and Black, 1999; Patterson, 2000; Bhagat and Black, 2002; Lynall *et al*., 2003). The measurement, or analysis, of board performance is further complicated by a variety of dominant internal and external environmental factors on the roles and responsibilities of board directors, many of which influence the ways that directors allocate time and resources, identify their individual roles and contribution levels, and manage coalitions and conflict. The positive counterarguments to those given by scholars and practitioners rely therefore on an evaluation process which recognises unique board architecture, and accurately reflects in its design the four most significant environmental factors – company lifecycle, corporate structures, board cultures and embedded process – which affect board performance and effectiveness (Long, 2004; Long *et al*., 2005). See Table 2.

The influences of company lifecycle

Listed companies are relatively stable compared with their unlisted counterparts; lifecycle factors do not dominate short-to-medium term strategy, and board members are expected to make a general contribution without the benefit of specific sector or company knowledge. However, the age and stage of a company influences a wide variety of board determinants, which in turn affect the environment in which directors make decisions; access to internal and external resources, levels of stability during poor trading periods or economic cycles, the complexity of operations, and the impact of corporate history and culture on the board environment are all influenced by company lifecycle. Companies operating at different stages of the lifecycle, and drawing on diverse histories and cultures, demand specific board expertise and composition, and require a flexible approach to issues such as board management, strategic

Table 2. Influences and environmental factors on boards of directors of UK listed companies

Influences	Environmental Factors on the Roles and Responsibilities of Directors
Lifecycle	Access to resources Effects of economic environment History and culture Complexity of operations
Structure	Size of board, committees and executive team Formality of contracts and executive tenure Isomorphic pressure from peer group and industry sector External visibility and reputational risk Formality of communication channels between constituencies Separation and transparency of board roles and responsibilities Consistency of shareholder agendas and knowledge Impact of corporate governance and regulation
Culture	Executive motivation and management Approach to remuneration, nomination and succession Information asymmetry and earnings management Board and individual dynamics and experience Encouragement or inhibition of individual contribution Board attitudes toward independence and tenure Culture of risk awareness and management Level of bureaucracy Shareholder interest and interaction
Process	Formality of executive presentation Interaction between executive and non-executive members Structure and timing of meetings Structure and timing of board agendas Quality and timing of papers and information Communication with shareholders Methods of induction and board development

Adapted from Long (2004)

development, succession planning and risk analysis. Speculation has already emerged from the literature regarding the efficacy of board practices from older, established companies applied to younger, flatter organisations (Forbes and Milliken, 1999) and there is currently very little literature on board development within private companies transitioning to the public markets.

If sensitive to the influences of lifecycle, the evaluation process can provide an opportunity for boards which are overseeing strong growth and dynamic markets, or which are too unstable to manage long periods of poor trading, to examine their flexibility, diversity and fresh thinking in the boardroom. Attention to the lifecycle can highlight the differences in board requirements and contribution between large and small companies, those facing stagnation or expansion, changing risk profiles and executive needs, as well as encourage specific and relevant contribution from non-executive members.

The influences of corporate structure

The literature suggests that listed companies attract experienced executives who, by virtue of the nature of their role, have detailed and specific company knowledge. Executive contracts are highly structured and transparent, and attempt to align the interests of executives with sharehold-ers' increasingly short-term views. Internal resources are plentiful, and processes and communication channels are formal and constrained due to the constraints of price-sensitive information and external visibility. Isomorphic pressure is high; companies attempt to conform with PLC norms in order to escape regulatory, institutional and media criticism. In contrast, shareholders, often institutional and fragmented, have differing time horizons and internal portfolio agendas which lack external transparency and unity of purpose; knowledge of individual companies and sectors is low. Furthermore, institutional shareholders are increasingly vocal, publicly criticising boards of directors in their decision-making processes and compliance procedures.

Independent board members find this both a freedom and a restriction. Due to the external scrutiny of both shareholders and regulators, they are actively encouraged to oversee the processes of executive monitoring and remuneration, appointment and removal of directors, and succession planning. Induction and risk processes are formalised and structured, influenced by modern corporate governance. However, due to high levels of executive knowledge and insufficient non-executive time, independent directors have limited involvement with the process of strategic development, and are encouraged to comment mainly on its presentation by executives. Furthermore, formal channels of communication discourage non-executives from overseeing the financial detail, and price sensitivity prevents them from communicating with shareholders other than through the chairman. Overall contribution is limited therefore to those areas which suit the control and monitor roles, and which can be regulated and rendered effective through visible processes such as resignation.

Corporate structure determines a variety of factors which impact board performance and the decision-making process, including the size of board and executive team, the formality of executive contracts and tenure, the level and impact of external visibility, the degree of pressure to follow peer group norms, the level of corporate and individual reputational risk, the formality of communication channels between constituencies, the consistency and unity of shareholder agendas and their levels of knowledge and familiarity with executives and operations, and the impact of regulation and corporate governance. The evaluation process can address a range of structural issues; does the size and composition of the board and committees encourage maximum effectiveness and contribution? Is adverse media coverage affecting the way in which the board discusses strategic development and risk assessment? Have changes in board composition and succession, such as CEO to chairman, been properly communicated to executives and shareholders, together with defined roles, responsibilities and delegation processes? Has the board examined its approach to independence and debated, for example, the value of corporate memory in the boardroom?

The influences of board culture

Again, the literature suggests that board composition and individual dynamics influence boardroom culture, and create opportunities for minorities to dominate (Pye, 2001b). Executives are self-interested, and keen to exploit the opportunities for information asymmetry and carefully managed presentation. The personality and effectiveness of the chairman, his/her relationship with the CEO, the board agendas, the format and formality of the meetings, and the sharing of information are all cultural influences on board performance and effectiveness. Communication channels are formal, limiting non-executive exposure to executives and shareholders. Contribution is either encouraged or inhibited by the chairman and long-standing members of the board, often establishing path dependency. External scrutiny and regulation can breed a culture of process over a culture of enterprise, even though there is institutional pressure for short-term results, and minimal attention from shareholders during periods of success. Furthermore there is increasing pressure for boards to appoint diverse members and avoid cloning which, although beneficial on some levels, may impact on specific company and sector understanding. Contribution on listed boards is therefore conflicted; independent directors are restricted by formal process whilst aware of the need for teamwork, and expected, through controlled channels of communication and corporate governance, to be active in the areas of people management (executive performance and remuneration, appointing and removing directors, succession planning) without becoming overly familiar with executives and operations, and excluded from detailed strategic and financial processes.

The influence of corporate culture over levels of power and authority, and the nature of team working, impacts board effectiveness (Conger and Lawler, 2001), and deserves special attention in the evaluation process. Board dynamics and cohesiveness are notoriously difficult to measure as they are governed by complex interactions between individuals, framed by formal and informal relationships, and endorsed by shared values, beliefs and understanding which are often hidden from view (van der Walt and Ingley, 2001). However, evaluation can improve the effectiveness of relationships between new and existing members, and executive and non-executive members, through the exploration of motivation and shared principles, levels of debate and challenge, and the clarity and transparency of information flows between management, board members and committees. It can also encourage new board members to question existing consensus, traditions and processes, which are often products of history and habit rather than examples of best practice; does the board agenda encourage proper discussion? How can the relationship between executive and non-executive members be improved? Does the induction programme assist new members to fully contribute?

The influences of embedded process

Listed boards are dominated by formal processes; independent directors are exposed to executives through formal board presentations, and in-depth strategic discussions are limited to annual or bi-annual events. The ability to monitor financial processes is restricted due to communication channels and time commitments. Independent directors are encouraged to oversee board processes concerning management control, and discouraged from involving themselves in the internal financial detail and external communication channels; inevitably they are focused on tangible results most visible in a complex environment. Risk is managed increasingly through formal processes and committees, and induction programmes for new directors are designed by executives, rarely including interaction between existing independent directors or other stakeholders.

Established corporate processes, such as meeting schedules and agendas, information flows between members, and the use of shareholder communication channels such as the AGM and the Annual Report, influence the way in which decisions are made at board level and the effective use of its members. New directors may find the evaluation process helpful in exploring the value of special items such as the strategic away-day, the number of board and committee meetings, and the levels of executive workload, whilst more established members may use the evaluation to comment on agenda issues, the accuracy and timeliness of papers and minutes, and the standards of accountability and board operations. Legitimate questions arise; does the board dedicate enough time and resources to strategic development? How does the board manage risk? How does it plan for succession?

Individual contribution

Although board evaluation is becoming more widespread amongst UK plcs, there remains a significant reluctance amongst chairmen to review individual contribution as a separate exercise. However, evaluation processes do not have to single out individual directors in an uncomfortable fashion; they can, as Garrett (1997) noted, operate as a legitimised discussion of board issues, concentrating on board dynamics as a whole, and individual interpretation of factors such as levels of detailed knowledge, reliance on executive trust, the nature of communication and formal authority. The evaluation process encourages individual board members to consider their approach with regard to monitoring and control, the potentially conflicting role of protector and champion, the balance of expert knowledge and subjective judgement, the ability to analyse risk and internal control, and self awareness regarding development needs, contribution and independence. It raises valuable questions concerning the quality of interaction between executive and non-executive members of the board, the degree of specialised industry and committee knowledge needed by individual members, and the impact and effectiveness of contribution.

Individual evaluation can be designed to incorporate a variety of board perspectives, issues of confidentiality and available resources. Careful thought can be given in advance to specific objectives, suitable participants, techniques and communication strategies (Kiel *et al*., 2004), in order to ensure constructive interpretation of results, supportive feedback and appropriate action following the evaluation. Furthermore, the evaluation process and its participants can vary from year to year, incorporating a cycle of main board, committee and individual reviews which reflect any changes to the dominant influences outlined above.

Conclusion

Radical change over the last decade has focused the spotlight on the principles by which enterprise is governed and advanced; the nineteenth-century legal basis of the Anglo-American governance model appears ill-matched not only to the realities of the 21st century economy (Plender, 2003), but to the variety of board and company structures composed to create long-term value for shareholders. There is an assumption within the literature that corporate governance research has adopted a Darwinian view; companies survive because they have optimal governance structures, and diminish because they fail to adapt to the changing environment and requirements (Kole and Lehn, 1997). However, for practitioners and scholars alike, corporate governance and board performance are inextricably linked but little understood; Forbes and Milliken state that "understanding the nature of effective board functioning is among the most important areas of management research" (1999, p. 502), supported by Roberts *et al*. (2005), who suggest that qualitative primary research on the dynamics of governance relationships is a necessity. In order to review board performance, and understand more about its link to corporate performance, we need to know more about behavioural dynamics, the relationships between executive and non-executive directors, and the conduct of the individuals (McNulty *et al*., 2002).

It is clear that companies and directors are currently attempting to redefine corporate governance with practices that extend past rules and regulations in order to demonstrate their own brand of ethics, honesty, integrity and transparency (Donaldson, 2003). The development of effective evaluation is critical therefore to the ongoing effort to understand and improve board performance, enhance individual contribution and satisfy shareholder concerns. Of equal importance is the transparency of disclosure regarding evaluation outcomes to shareholders and other stakeholders, and the timely manner in which boards incorporate change (van der Walt and Ingley, 2001); board effectiveness, as Higgs suggests, requires "a culture of openness and constructive dialogue in an environment of trust and mutual respect" (2003, p. 33). Furthermore, as boards of directors and their roles are unique in their architecture and objectives, the template and checklist approach to evaluation, developed with expediency in mind, appears increasingly inappropriate and blunt, insensitive to board culture and challenges, and incapable of measuring complex configurations such as membership dynamics, the benchmarking of performance and the need for fresh perspectives.

As suggested by the Combined Code (2003), boards rely on their chairmen to encourage and demonstrate regular performance monitoring and feedback, but it is equally the responsibility of shareholders, stakeholders and other board members to encourage an evaluation process which reflects an integrity of purpose, and which dramatically increases the levels of knowledge and understanding for those operating within the board environment.

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