

Board Evaluation and Its Effect on Board Composition and Board Work

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Abstract: In this paper, the effect board evaluation has on the board's composition and work is studied. Board evaluation is considered vital for the development of the board's work, which in turn is essential for the development of the company. The study is performed on companies listed on the NASDAQ OMX Nordic list and the Oslo Stock Exchange as a questionnaire study, where the chairperson was asked to grade (on a scale from 1 to 5) how satisfied she/he was with the different aspects of the board's composition and work. Of the 157 responding chairmen, 120 (76%) were chairing companies that employ a board evaluation process. The chairperson was often the key person in these evaluation and most of the evaluations are delivered verbally to the nomination committee. Of the 120 companies with board evaluation, 20 companies use only informal discussions as the evaluation method. The remaining 100 use at least one of the methods: individual open/anonymous questionnaire or interviews. Furthermore, the responses were tested with ordered probit model for the effect of board evaluation on the board's composition and work. The results show that board evaluation affect positively, according to the chairperson perception in all asked aspect (with one exception) of board's composition and work, with significant results in four aspects: first, better decision-making; two, better discussion of **short-term development**; three, more actively discussion of business strategy; and four, **better understanding of non-financial objectives**. Last, the results of the study do not show that board evaluation affect the company's financial performance (proxy with Tobin's Q, ROA or ROE).

Keywords: board evaluation, board effectiveness, corporate governance, nominee committee, chairman.

JEL Classifications: G34, L20.

1. Introduction

A board of directors is the unit of a company with external responsibility for the company's activities. Board members are elected at shareholder meetings and given power and duties by laws, company charter and other directions set forward at shareholder meetings. The board of directors is the guardian for shareholders, in order to address the principal agent problem stemming from the separation of ownership and control. This separation creates information asymmetries, which may lead to company management (agent) decisions that are focused on the managers' own interests. These interests likely differ from the interests of the shareholders (principals), who have maximizing company value as their primary objective. This difference in interests means that the managers need to be monitored, often resulting in high agency costs. Because the ownership in listed companies is de facto dispersed, shareholders cannot monitor the managers themselves but instead need to employ someone who can. The shareholders elect board members to do just this – monitor the managers (Berle and Means, 1932; Jensen and Meckling 1976; and Fama and Jensen 1983). The board also has a vital advisory role to the management in making strategic decisions (Pfeffer & Salancik 1978).

Even if the CEO, employees, control systems, strategic plans, and other components of a company's future success are evaluated on a regular basis, the organization at the top - the board of directors - is not automatically subjected to review. On the contrary, Korn/Ferry's Annual report of board of directors (2007) shows that less than half of the "premier organizations" in the U.S. employ board evaluation of individual directors on a regular basis. In Japan, the evaluation rate is 30 percent, whereas it is 75 percent in the U.K. In addition, 96 percent of directors of U.K. firms believe that directors should be evaluated on a regular basis, where the figure for U.S. directors is 76 percent. The conclusion of the study by Korn/Ferry (2007, p. 11) when it comes to board evaluation is that "[u]nfortunately, assessments of individual board members, when they happen, infrequently lead to change." In the U.S. only 40 percent of the respondents saw any changes in the board as a result of board evaluation. In the U.K., the comparable figure is 67 percent.

In all five Nordic countries, nomination committees are mandatory for listed companies.¹ Usually the committee is established by the board of directors and is commonly dominated by its members. In Sweden, however, the law specifies that the mandatory nomination committee of a listed company should consist of representatives of the three largest shareholders.² Carlsson (2007) describes the Swedish system in which the nomination committee, consisting of owner representatives, reviews the board's performance and nominates new candidates.

This study adds findings to previous research by offering deep insight into the consequences of board evaluation. The study does this by asking the chairman of listed Nordic firms about their perception of the board's composition and work. Previous studies are mostly theoretical, with no real data on what the consequences are of board evaluation, instead these previous studies do state based on experience that board evaluation will improve the board to become more effective (Conger, Finegold, and Lawler, 1998); other claim that board evaluation is a positive thing for the board and its work (Conger and Lawler, 2003). This study will statistically test what the consequences of board evaluation are, based on the chairpersons' responses. The study is performed in three parts: the first part will with descriptive statistics describe the frequency of board evaluation, who implements the evaluation, the methods by which board work is evaluated, etc. In the second part it is tested what the consequences of board evaluation have on the board's composition and work. Here, the Chair considers the board, with board evaluation, to have broader composition as well as better network of contacts. Furthermore, the 'chairman believe that the board have better broad composition, better networks of contacts, better decision-making; better discuss short-term development; more actively discusses business strategy; better understanding of the company's non-financial objectives/qualitative. The third part

¹If the company chooses not to install a nomination committee, the company must explain its rationale.

² The Swedish Code of Corporate Governance was introduced as compulsory on the OMX Stockholm Stock Exchange in mid-2005. The Code specifies that the nominating committee shall have at least three members. The majority of committee members should be independent of the company and its management. The Chief Executive or other members of management should not be a member of the committee. At least one of the committee members should be independent of the voice in the company the largest shareholder or group of shareholders who together management of the company.

tests the financial outcome of board evaluation against Tobin's Q, ROA and ROE, however with no significant findings.

The remainder of this paper is organized as follows. In section 2, a discussion of previous research and development is provided. In Section 3 a description of the sample and data used in the study and the empirical model is presented. In section 4, the results of the study are presented, and in Section 5 the conclusions of the study are drawn.

2. Previous Research

The board of directors consists of individuals elected by the shareholders at a company's general meeting. The board of directors fulfills a special role according to laws and regulations, but also according to the specific company's charter and other instructions. As in all organizations, the duties of the board may be performed ineffectively. Therefore, different means are developed to make the board more effective; board evaluation is one such mean. No single process for board evaluation exists. As with all evaluations, the evaluator must study the organization and/or the individual board member's role. Knowing the responsibilities, the evaluator then must set up measurable variables to be used in the evaluation (Van Den Berghe and Levrau, 2004)

Ram Charan (2005) claims that the U.S. boards were "ceremonial" boards, existing only to perform obligatory duties, before Sabanes-Oxley (SOX) was adopted. Charan states further that SOX "liberated" the board from CEO dominance, thus allowing the board to become active. Charan also outlines a third phase in which the board takes shape as a team and becomes "progressive." A progressive board energizes the company by focusing the board's work on three essential elements: group dynamics, information architecture and discussion of substantive issues. Furthermore, Charan (2005, p. XX) says that self-evaluation is a vital technique for the "continue[d] improvement and renewal" of the board.

When introducing the idea of board evaluation to a board, the primary obstacle is convincing the board members themselves that an evaluation is necessary. Conger and Lawler (2002) point out that this is not always an easy task, because it means that high profile board

members will be evaluated. In addition, boards may be reluctant to introduce evaluation, as comments from one individual concerning a peer board member may lead to conflict in the board's future work. Because each board member bring her/his special competence to the board, assessing an individual's contribution may be difficult in a broadly-based evaluation. Some members may also question the fairness of evaluating busy board members who only participate in the board on a part-time basis.

The second step establishing a board evaluation process is deciding how the evaluation should be performed. Should the entire board be evaluated as a single unit, or should each board member be evaluated individually? Conger and Lawler (2002) claim that the initial focus of the evaluation should be the board's performance as cohesive unit, which should serve as the starting point for an appraisal. When the board feels ready, it should then move on to peer evaluation – what each individual board member contributes.

Hypothesis 1: Board evaluation contributes positively to the composition and work of the board.

Hypothesis 2: Board evaluation contributes positively to corporate financial performance.

2.1. Why we have Board Evaluations

An evaluation is usually made based on a review, and the purpose of the review is to have a "quality control" on advancement within the company, so that improvements can be made. Conger, Finegold, and Lawler (1998) point out that the board evaluation can help the board become more effective by clarifying the responsibilities of individuals and of the group. The evaluations can help improve the working relationship between a company's board and its senior management. The evaluations can also ensure that there is a healthy balance of power between the board and the CEO. Conger et al. also point out that dismantling the process is more difficult when the appraisal process is in place. This arrangement will make it more difficult for a CEO to dominate the board or to avoid being held responsible for poor performance.

A board evaluation examines the board and the work it performs. In the past 10-15 years, board evaluation has emerged as one of the most frequently requested processes, not only from shareholders, but also internally from the board members themselves (Long, 2006; Schmidt and Brauer, 2006). The board evaluation aims to influence the board's ability to perform its roles in an efficient manner. Long (2006) points out that the board evaluation process should be tailored to the company and its specific situation, considering such factors as company lifecycle, corporate structure, board culture and embedded processes.

The competition for good board members is tough, and by evaluating directors who have already proven themselves, companies may scare away good candidates. This is something Conger and Lawler (2003) consider, when they conclude that evaluation of the performance of individual directors is a positive thing for the board and its work. Board evaluation is a mechanism to plainly define performance expectations for the board. Kazanjian (2000) also points out that the board evaluation should also bring up issues that otherwise would not be considered. The board evaluation is the only time the board asks itself what it contributes to the company's overall effectiveness.

2.2. How Board Evaluation are Performed

Board evaluation may be performed in many different ways. However, the evaluation should always be presented and discussed with the board before its implementation. The evaluation can focus on the Board as a whole or on each director individually. The evaluation can be conducted by the Board itself or by an external evaluator. The evaluation method may be a written questionnaire, a group discussion, or one-on-one interviews. Furthermore, the format may change from one year to the next for the same board (Van Den Berghe and Levrau, 2004).

The most basic form of board evaluation occurs when the Chair asks the board for its opinion (i.e., informal discussion). Other commonly used forms are interviews and questionnaires held with each board member. The questionnaires may be open or anonymous (Kiel et al. 2005). The outcome of the evaluation always depends on the board members' willingness to critique and propose changes to the board's work. Much of the

board members' reluctance to participate may be tied to who performs the evaluation. The evaluation is commonly implemented by the Chair, an external consultant, or a designated board member (Anderson, 2006).

Stybel and Peabody (2005) try to identify the most effective way to evaluate the board. Stybel and Peabody point out that board evaluation is sensitive for the members, because their reputation is one of the two things an individual risks when serving on the board.³ However, the reputation risk may be handled through unique evaluation depending on the company and situation. Stybel and Peabody identified four approaches used by the studied boards. The four approaches were based on the junction of two variables: data-collection methodology and confidentiality of data.⁴

Collier (2004) discusses how measurement and evaluation of board performance can be performed. He suggests that an outsider should perform the evaluation and that this person should evaluate the board by attending a few board meetings to observe the board dynamics. As a prerequisite for a good evaluation, the evaluator must understand how a board should work. Collier points out that the best evaluations are obtained when the external evaluator adds his or her perspective to the discussion while presenting the evaluation results.

Minichilli, Gabrielsson and Huse (2007) also point out that many methods exist for performing a board evaluation. Minichilli et al. state that the key to the evaluation is understanding the expectations for the evaluation and its results. Several interests must be taken into consideration. Minichilli et al. call these interests building blocks. They identify four building blocks: 1) *the addressee*, the individual or group who will receive the results of the evaluation; 2) *the agent*, the person who will perform the evaluation; 3) *the evaluation content*, the aspects of the board that should be evaluated; and 4) *the evaluation modalities*, the methods of implementing the evaluation.⁵

³The other "personal risk" being "financial risk" from a lawsuit of malpractices.

⁴The four approaches to board self-evaluation are the following: 1) informal, 2) legalistic, 3) trusting, and 4) systematic.

⁵The four board evaluation systems are the following: 1) board-to-board, 2) board-to-market, 3) market-to-board, and 4) market-to-market.

In a case study, Miller (2008) examines the board of an aged care organization, which initiated board evaluation based on sound governance principles similar to those used in the private sector. Miller concludes that the board successfully established the evaluation while maintaining the company's cultural identity.

2.3. The Consequences of Board Evaluation

For the evaluation to be valuable to the company, it has to produce some sort of outcome. The outcome may be that the Chair provides input on how to improve board work. The evaluation can also be forwarded to the nomination committee, so that the committee members can evaluate which members should stay on the board and which competencies should be added. The evaluation may be presented either verbally or in writing. Furthermore, the nomination committee may review, if such materials exist, results from of the internal questionnaire and/or the external report (Daily and Dalton (2003)).

As its primary purpose, a board evaluation gives the board a chance to reflect upon and assess their strengths and weakness. To obtain maximum benefit from the evaluation, the board must take time, as a whole, to digest the results and then agree on follow-up actions or changes that will increase the board's effectiveness. Further evaluation can reveal skills that should be added to the board; the nomination committee can use this information. In addition, evaluation provides the opportunity for the Chair of the Board to have his or her leadership assessed. The evaluation thus provides the Board with a yardstick that can be used in shaping the board's future work (Charan, 2005).

3. Sample, Data and Empirical Methods

On December 13th 2007, a questionnaire was sent out to the board Chairs of the 592 companies listed on the OMX Nordic Stock Exchange.⁶ Each Chair received a cover letter

⁶Questionnaires were sent out to the chairs of companies that were listed on the OMX Nordic Stock Exchange by November 13th 2007.

from Jukka Ruuska, then-CEO of OMX, as well as a questionnaire and a self-addressed envelope to return the questionnaire to OMX. The cover letter explained the nature of the study and also assured the anonymity of responses. The initial mailing was complemented by reminders, which were sent out between January and April 2008.

In June of 2008, the study was extended by adding all 188 companies listed on the Oslo Stock Exchange to the study. The sole mailing to this constituent was sent in June 2008. With the addition of the Norwegian companies, the total number of companies in the study was 780.

The response rate was as follows:

TABLE 1

TABLE 2

3.1. Methodology of the study

In the questionnaire sent out to the Chairman, the Chairman receives fifteen claims about the composition and work of the board (see Appendix 1). The Chairmen are to give their opinion about the claims on grade from one to five. In analyzing the impact of board evaluation on the board's work an ordered probit model is applied. The responses were matched with background information on board characteristics, firm financials and ownership concentration. The independent variables have all been applied in previous academic studies. The independent variables used in this study are:

Board characteristics. The independent variable of significant interest for this study is Board_evaluation, defined as whether the chairman response that the board is evaluated yearly or not. The variable is consequently a dummy. Also a dummy is whether the board has a least one female board member or not is included as a dummy (Female_BM_YN). An independent variable of the board size is included; here the board size is included as the total board number of voting board members (Board_size). Board work may be affected by

the chairperson's tenure and age (*Chairperson_tenure* and *Chairperson_age*), due to that experience and age may affect how the board is chaired. The variables are estimated by the number of years as the chairman has been a board member respective the chairperson's physical age. The data of Board characteristics are collected, for the OMX companies, from the annual reports of 2007, while data for the Oslo-listed firms are from the annual reports from 2008.

Firm characteristics. It is further taken in to consideration whether firm characteristics do matters for the chairpersons perception on how well the board's composition and work function. Four independent variables considered firm characteristics are taken into considerations: ownership structure, firm size, profitability, and whether the company is within the financial sector or not. An independent variable measuring the percent of equity owned by the five largest shareholders (*Own_5_largest*) is applied. This variable is included since the ownership in the Nordic countries is very concentrated and may be effect board work through large owners and their demands. The size of the firm is proxy by the logarithm of turnover (*Ln_turnover*) for the last accounting year prior to the survey. Proxy for firm performance ROA is applied. ROA is the return on total assets from the last full accounting year. A dummy (*Sector*) is included the industry of the firm, here, the sample is divided into two groups: financial and non-financial companies.

In the study the following ordered probit models with robust standard are used:

CM's opinion of board work =

$$\lambda_0 + \lambda_1(\mathit{BoardChar})_i + \lambda_2(\mathit{FirmChar})_i + \lambda_3(\mathit{Board_Evaluation})_i + e_i, \quad (1)$$

where *BoardChar* is a vector of board characteristics (*Board_size*, *Female_BM_YN*, *Chairman_tenure*, and *Chairman_age*), *FirmChar* is a vector of firm characteristics (*Own_5_largest*, *Ln_turnover*, *ROA*, *Sector*), and *Board_evaluation* is a dummy for whether the board is evaluated yearly or no.

4. The Results of the Study

The replies on the questionnaire show that 76 percent of the company have some type of yearly evaluation of the board work and the board members. The country with the highest evaluation rate is Finland with 100 percent, followed by Sweden with 84 percent, Norway with 65 percent and Denmark with 58 percent. See Table 3.

TABLE 3

Concerning who implements the board evaluation, the Chairs claim that they do it themselves at most companies. Of 118 responses on this question, the Chair's reply in 96 cases indicates that he/she does the evaluation personally. Of the 96 Chairs, 71 do the evaluation themselves, whereas 25 have a second person who assists them in the evaluation. Of the chairs, 16 receive help from an external consultant and 7 from designated members of the board. See Table 4.

It should be noted that the responding Chair may select more than one of the given responses.

TABLE 4

With respect to how the board evaluation is performed, most Chairs answer that the evaluation is performed through 'informal discussions'. Here, 59 Chairs replied that their board used that method for board evaluation. Of the 120 companies with board evaluation, 20 companies use only 'informal discussions' as the evaluation method. The remaining 100 use at least one of the methods: individual open/anonymous questionnaire or interviews. Also popular were 'Individual anonymous questionnaire' (51 respondents) and 'Interviews' (45 respondents). Informal discussions are particularly popular in Denmark and Norway. In Sweden, 'Individual anonymous questionnaire' is the method used most often to evaluate boards. See Table 5.

Also on this question, the responding Chair had the opportunity to indicate more than one of the given answer choices.

TABLE 5

Less than 60 percent of the companies surveyed have a nomination committee. The country with the highest percentage is Sweden, where almost 80 percent of the companies have nomination committees. In Finland, almost 78 percent have nomination committee, whereas 55 percent of the companies surveyed do in Norway. No company in Iceland responded that it has a nomination committee, and less than 10 percent in Denmark have one. See Table 6.

TABLE 6

Eight of the responding Chairs reveal that results of the board evaluation are not reported to the nomination committee. Most of the Chairs report the result of the board evaluation verbally to the nomination committee (72 responses), which is also the most common way to report in all countries with respondents (no answers on Iceland). The second most common way to report to the nomination committee is in writing (40 responses). Some Chairs also indicate that they report to the nomination committee by giving them an 'Account of internal questionnaire' (28 responses) or that they give the nomination committee a copy of the external report (22 responses). See Table 7.

TABLE 7

Although a nomination committee is mandatory in all five Nordic markets, not all companies have one. Those that do not must explain their rationale for this. On average, the chairs are more than pleased with the nomination committee. In Sweden, the number of observations was 55, with an average pleasure of 3.71. The average of the Finnish chairs is slightly higher, with an average of 4 with 14 observations (see Table 8A).

TABLE 8A

Here, there are only 12 observations, but satisfaction with the nomination committee (average 3.83) seem to be in line with the satisfaction of companies with board evaluation. The standard deviation is slightly higher for companies without board evaluation (see Table 8B).

TABLE 8B

4.1. Board Evaluation’s Effect on Board’s Composition and Work

In step one of the statistical evaluation of the consequences of board evaluation: a t-test of group means difference is applied to test the difference in the grading means between boards with yearly board evaluation and boards that do not have yearly board evaluation. The results indicate that there are significant difference (1 percent level) between the two groups when it comes to the chairman’s perception of the board’s broad composition, how the board makes decision, and the board’s clear understanding of non-financial objectives/qualitative. It is significant at the 5 percent level when it comes to how actively the board discuss business strategy. At the 1 percent level six aspects of board composition and work are significant. The aspects are: adequate knowledge about current financial issues; sufficient network of contacts; the board’s discussion of short-term development; the board’s discussion of long-term development; how actively the board reviews the business plan, strategy, objective and budget; and whether the board’s work is carried out efficiently. See Tables 9A and 9B.

TABLES 9A and 9B.

In the second step of the statistical evaluation: an ordered probit model tests whether the variable Board evaluation has any effect on the board’s composition and work. The results are in line with the expectations in that Board evaluation has a positive effect on board’s composition and board work. The results of the study show that in three out of five aspects of board’s composition board evaluation has a positive effect on board’s composition: significant for broad composition and sufficient network of contacts (see Table 10). Further, in nine out of the ten board work aspects the Board evaluation effect positively how the

chair perceives the board's work (see Table 11). In four of the aspects the results is significant: first, better decision-making; two, better discussion of short-term development; three, more actively discussion of business strategy; and four, better understanding of non-financial objectives.

Table 10.

No significant results were found in the results testing Hypothesis 2, whether Board evaluation had any effect on firm performance.

5. Conclusions of the Study

The results of the study unveil that board evaluation is quite common on companies listed on the Nordic stock exchanges. The results also unveil that the chairperson is the key person in these evaluation and that most of the evaluations are made with the methodology: individual open/anonymous questionnaire or interviews. And most board evaluations are delivered verbally to the nomination committee.

Further, the results of this study clearly indicate that board evaluation affect the board's composition and work positively according to the chairperson. It seems board evaluation especially affect the board in that the board receive a better composition for decision making and that the board discuss better vital issues for the company's strategically position. Though all asked aspect of board's composition and work showed positive correlation, though all are not significant.

It should be remembered that the results of this study is the perception of only one member of the board – the chairperson of the board. And the results of the study also show the key position of the chairperson in the board evaluation. So if this study has showed the importance of board evaluation, it also shows another important issue - who will evaluate the chairperson?

The results of this study clearly develop previous studies on board evaluation in this study has dwelled into in what way board evaluation effect board work, if any. The results are also confirmed by a similar study on football clubs (Brunzell and Söderman, 2012) . In that the results of the board work of football clubs are also affected positively by board evaluation.

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APPENDIX 1. The questions from the survey included in this study.

1. Please state Your opinion of the Board’s Composition.

	very poor --- very good				
<i>Do You believe that the Board has:</i>	1	2	3	4	5
- Broad composition					
- Sector competence					
- Adequate knowledge of current financial issues					
- Sufficient representation by gender					
- Sufficient network of contacts					

<i>How pleased are You with:</i>	1	2	3	4	5
- Owner-appointed board members					
- Board members who are independent from owners and management					
- Domestic board members					
- Foreign board members					
- Male board members					
- Female board members					

not relevant
0

2. Please state Your opinion of the Board’s work.

<i>How pleased are You with:</i>	1	2	3	4	5
- The Board’s work in general					
- How the Board makes decisions					
- How the Board discusses the Company’s short-term development					
- How the Board discusses the Company’s long-term development					

<i>Do You believe that the Board:</i>	1	2	3	4	5
- Actively discusses business strategy					
- Actively reviews the business plan, strategy, objective, and budget					

<i>Do You believe that the Board has clear:</i>	1	2	3	4	5
- Financial objectives/quantitative					
- Non-financial objectives/qualitative					

- Is the work of the Board carried out efficiently?					
- How functional is the boundary between owners, Board, and management?					

<i>How pleased are You with the:</i>	1	2	3	4	5
- Nominee Committee					

not relevant
0

3. Are the Board's members and Board's work evaluated yearly?

Yes No If No, skip to Question 7

4. Please state who implements the internal evaluation of the Board's work:

- Chairman	<input type="checkbox"/>	Cross one or more
- External consultant	<input type="checkbox"/>	
- Designated members of the Board	<input type="checkbox"/>	
- Other	<input type="checkbox"/>	

5. Please state how the Board's work is evaluated:

- Informal discussion	<input type="checkbox"/>	Cross one or more
- Individual open questionnaire	<input type="checkbox"/>	
- Individual anonymous questionnaire	<input type="checkbox"/>	
- Interview	<input type="checkbox"/>	
- Other	<input type="checkbox"/>	

6. Please state in what way You provide the evaluation of the Board's work to the Nominee Committee:

- Not at all	<input type="checkbox"/>	Cross one or more
- Verbally	<input type="checkbox"/>	
- In writing	<input type="checkbox"/>	
- Account of internal questionnaire	<input type="checkbox"/>	
- Copy of the external report	<input type="checkbox"/>	
- Other	<input type="checkbox"/>	

TABLE 1. Descriptive statistics

Descriptive statistics are reported for the responses received from a survey directed to the Chairs of all companies listed at the OMX Nordic Stock Exchanges at the end of 2007 (all but Norway) and in May 2008 (Norway). A total of 780 companies were included.

Panel A: Number of responses and response rates (%) total sample	Response rate Responses of total sample	
Denmark	36	22.9 %
Finland	18	11.5 %
Iceland	4	2.5 %
Norway	20	12.7 %
Sweden	79	50.3 %
TOTAL	157	100 %

Panel B: Number of responses and response rates (%) by country	Number of Responses	Number of companies	Response rate
Denmark	36	188	19.1%
Finland	18	130	13.8%
Iceland	4	22	18.2%
Norway	20	188	10.6%
Sweden	79	252	31.3%
TOTAL	157	780	20.1%

TABLE 2. Descriptive statistics for responding firms and target population

Descriptive statistics are reported for the listed firms in Denmark, Finland, Iceland, Norway and Sweden (the "Population", a total of 780 firms), which were targeted in the survey (i.e., whose Chair of the Board received the questionnaire). Also statistics for responding firms (the "Sample", a total of 157 firms) is reported. The firms are divided into Financials (banks, investment and insurance companies) and Non-financials, based on the sector codes used by the OMX exchanges and Oslo Børs (both use same ten categories). Averages, medians, standard deviations, and the number of firms for which the financial information item has been obtained ("Obs") is reported for the following variables: Turnover (in 1000 Euros), No. of employees, Total assets (in 1000 Euros), Return on total assets (ROA, defined as Net Profit to Total Assets) and Solidity (defined as Equity to Total Assets). Financial data is for the last available reporting year prior to the date for sending out the questionnaire (typically 2007 for Norway, and 2006 for the others), and has been collected from Amadeus, Datastream, and annual reports for the companies.

		Non-financials		Financials	
		Sample	Population	Sample	Population
Firms		139	615	18	165
Turnover, 1000 EUR	Mean	1 447 592	1 058 814	2 046 413	543 775
	Median	129 626	101 826	105 100	53 981
	St.dev.	5 587 062	3 939 259	5 564 797	2 039 941
	Obs	139	604	17	142
No of employees	Mean	3 329	4 405	1 454	1 520
	Median	439	396	247	135
	St.dev.	9 968	22 460	2 883	4 679
	Obs	139	569	17	139
Total assets, 1000 EUR	Mean	1 447 592	1 049 915	6 021 457	12 379 270
	Median	129 626	102 364	563 342	570 934
	St.dev.	5 146 263	3 696 905	14 351 397	53 042 764
	Obs	139	615	18	165
ROA, per cent	Mean	4.98	4.22	4.07	5.95
	Median	7.87	6.40	1.98	2.40
	St.dev.	17.17	16.28	5.59	9.64
	Obs	138	613	18	162
Solidity, per cent	Mean	46.44	49.07		
	Median	44.83	45.58		
	St.dev.	19.96	20.11		
	Obs	139	610		

Table 3. Number of Companies with and without Board Evaluation

Respondents were asked to indicate whether the board was evaluated:

	Denmark	Finland	Iceland	Norway	Sweden	Chair response
Do have board evaluation	22	18	1	13	66	120
Do <u>not</u> have board evaluation	14	0	2	7	13	36
Did not reply	0	0	1	0	0	1
Total number of firms	36	18	4	20	79	157
Percentage of companies with board evaluation	58%	100%	33%	65%	84%	76%

Table 4. Who implements the internal evaluation of the board's work:

Respondents were asked to indicate who implements the internal evaluation of the board's work. The respondent may choose one or more alternatives

	Denmark	Finland	Iceland	Norway	Sweden	Chair response
- Chair	20	13	1	11	51	96
- External consultant	4	5	0	2	19	30
- Designated members of the Board	4	3	0	2	5	14
- Other	0	2	0	0	3	5

Table 5. The method by which the board's work is evaluated

Respondents were asked to indicate how the board's work is evaluated. The respondent may indicate one or more alternatives.

	Denmark	Finland	Iceland	Norway	Sweden	Chair response
- Informal discussion	12	11	0	9	27	59
- Individual open questionnaire	5	4	1	6	12	28
- Individual anonymous questionnaire	6	9	0	1	35	51
- Interview	8	7	0	5	25	45
- Other	0	0	0	0	0	0

Table 6. Number of Companies with and without a Nomination Committee

Respondents were asked to indicate whether the company has a nomination committee:

	Denmark	Finland	Iceland	Norway	Sweden	Total
Do have nomination committee	3	14	0	11	63	91
Do <u>not</u> have nomination committee	33	4	4	9	16	66
Did not reply						
Total number of firms	36	18	4	20	79	157
Percentage of companies with nomination committee	8.3%	77.8%	0.0%	55.0%	79.7%	

Table 7. How the evaluation is provided to the Nomination Committee

Respondents were asked to indicate how the chair provides the evaluation of the board's work to the nomination committee. The respondent may indicate one or more alternatives.

	Denmark	Finland	Iceland	Norway	Sweden	Chair response
- Not at all	4	3	N/A	1	0	8
- Verbally	9	12	N/A	9	42	72
- In writing	3	6	N/A	3	28	40
- Account of internal questionnaire	2	4	N/A	1	21	28
- Copy of the external report	1	5	N/A	0	16	22
- Other	2	0	N/A	0	1	3

Table 8A. Satisfaction with the Nomination Committee at Companies with Board Evaluation.

Respondents were asked to indicate how pleased they are with their nomination committee. Below are the responses from the Chairs of companies with board evaluation. Answers were given on a 1 (not pleased) to 5 (very pleased) scale. The responses are divided into four groups:

Pleasure with Nomination Committee	Denmark	Finland	Iceland	Norway	Sweden	Total
Observations	3	14	N/A	7	55	79
Average	4.67	4	N/A	3.7	3.71	3.80
Median	5	4	N/A	4	4	4
Standard deviation	0.58	0.78	N/A	0.49	0.85	0.82

Table 8B. Pleasure with the Nomination Committee at Companies without Board Evaluation.

Respondents were asked to indicate how pleased they are with their nomination committee. Below are the responses by the Chair of companies without board evaluation. Answers were given on a 1 (not pleased) to 5 (very pleased) scale. The responses are divided into four groups:

Pleasure with Nomination Committee	Denmark	Finland	Iceland	Norway	Sweden	Total
Observation	N/A	N/A	N/A	4	8	12
Average	N/A	N/A	N/A	3.5	4	3.83
Median	N/A	N/A	N/A	3.5	4	4
Standard deviation	N/A	N/A	N/A	1.29	0.76	0.94

TABLE 9A. Difference Means in Grading - Board's Composition

Respondents were asked to indicate the degree they agree with a claim about the board composition or board work. The respondents were given five alternatives from 1 (strongly disagree) to 5 (strongly agree). A mean for the board's composition grading is estimated as well as a difference in grading for clubs with and without board evaluation. In bracket is the standard deviation of each graded variable given. Finally, a t-test is listed for the difference in means between the two groups. Asterisks indicate significance at 0.01 (***), 0.05 (**), and 0.10 (*) levels.

	Yearly Board Evaluation	<u>OBS</u>	No Yearly Board Evaluation	<u>OBS</u>	Difference in means	T-test for group difference (p-value)
- Broad composition	4.28	120	3.94	36	0.32	0.0050 ***
- Sector competence	3.96	120	4.00	36	-0.04	0.7867
- Adequate knowledge of current financial issues	4.36	120	4.17	36	0.19	0.0982 *
- Sufficient representation by gender	3.49	119	3.36	36	0.13	0.5953
- Sufficient network of contacts	4.18	120	3.92	36	0.26	0.0847 *

TABLE 9B. Difference Means in Grading - Board's Work

Respondents were asked to indicate the degree they agree with a claim about the board composition or board work. The respondents were given five alternatives from 1 (strongly disagree) to 5 (strongly agree). A mean for the board's work grading is estimated as well as a difference in grading for clubs with and without board evaluation. In bracket is the standard deviation of each graded variable given. Finally also a t-test is performed for the group difference. Absolute values of t-statistics are in brackets. A t-test is listed for the difference in means between the two groups. Asterisks indicate significance at 0.01 (***), 0.05 (**), and 0.10 (*) levels.

	Yearly Board Evaluation	<u>OBS</u>	No Yearly Board Evaluation	<u>OBS</u>	Difference in means	T-test for group difference (p-value)
- The Board's work in general	4.175	120	4.03	36	0.145	0.2176
- How the Board makes decisions	4.31	120	4.00	36	0.31	0.0088 ***
- How the Board discusses the Company's short-term development	4.30	120	4.08	36	0.22	0.0835 *
- How the Board discusses the Company's long-term development	4.06	118	3.78	36	0.28	0.0909 *
- Actively discusses business strategy	4.36	120	4.03	36	0.33	0.0232 **
- Actively reviews the business plan, strategy, objective, and budget	4.26	120	4.03	36	0.23	0.0820 *
- Financial objectives/quantitative	4.22	119	4.14	36	0.08	0.5602
- Non-financial objectives/qualitative	3.75	118	3.36	36	0.39	0.0082 ***
- Is the work of the Board carried out efficiently?	4.22	117	4.00	35	0.22	0.0846 *
- How functional is the boundary between owners, Board, and management?	4.11	119	3.86	36	0.25	0.1292

Table 10. Determinants of chairman’s opinion of board composition

The table reports estimated coefficients and p-value (within parentheses) as well as goodness-of-fit statistics from regressing, in ordered probit models with robust standard errors, chairman responses on different questions concerning the quality of board composition (on a scale from 1, lowest, to 5, best), on a set of determinants. Absolute values of p-statistics are in brackets. Asterisks indicate significance at 0.01 (***), 0.05 (**), and 0.10 (*) levels.

Dependent / independent variables	Adequate knowledge of current financial issues				
	Broad Composition	Sector competence	Sufficient representation by gender	Sufficient network of contacts	
<i>Board_size</i>	-0.0305 (0.64)	-0.0064 (0.92)	-0.1124 (0.11)	-0.1745 (0.004) ***	-0.0719 (0.35)
<i>Female_BM_YN</i>	0.3170 (0.22)	-0.2158 (0.36)	-0.1995 (0.40)	0.8516 (0.000) ***	-0.2173 (0.32)
<i>Chairman tenure</i>	0.0172 (0.25)	0.0243 (0.06) *	0.0324 (0.025) **	0.0180 (0.09) *	-0.0250 (0.08) *
<i>Chairman age</i>	-0.0002 (0.99)	-0.0118 (0.36)	-0.0106 (0.38)	-0.0229 (0.07) ‘	0.0092 (0.53)
<i>Own_5_largest</i>	0.0004 (0.92)	-0.0018 (0.66)	-0.0053 (0.25)	0.0036 (0.38)	-0.0005 (0.90)
<i>Ln_turnover</i>	0.0669 (0.150)	0.0987 (0.015) **	0.1232 (0.003) ***	0.1106 (0.001) ***	0.0531 (0.18)
<i>ROA</i>	-0.0019 (0.81)	-0.0053 (0.59)	-0.0026 (0.71)	0.0033 (0.70)	0.0101 (0.17)
<i>Sector</i>	0.4648 (0.13)	-0.2027 (0.47)	-0.2098 (0.50)	-0.2241 (0.44)	-0.1971 (0.50)
<i>Board_evaluation</i>	0.4572 (0.04) **	-0.1238 (0.58)	0.3871 (0.106)	-0.1777 (0.46)	0.4336 (0.06) *
Wald Chi2	17.79	9.82	19.58	46.82	15.83
Pseudo R2	0.0598	0.0300	0.0680	0.0840	0.0415
OBS	146	147	147	146	147

Table 11. Determinants of chairman’s opinion of board work

The table reports estimated coefficients and p-value (within parentheses) as well as goodness-of-fit statistics from regressing, in ordered probit models with robust standard errors, chairman responses on different questions concerning the quality of board work (on a scale from 1, lowest, to 5, best), on a set of determinants. Absolute values of p-statistics are in brackets. Asterisks indicate significance at 0.01 (***), 0.05 (**), and 0.10 (*) levels.

Dependent / independent variables	Discussion of business strategy				
	Board work in general	Decision making	short-term development	long-term development	business strategy
<i>Board_size</i>	0.0155 (0.82)	0.0142 (0.85)	-0.1561 (0.02) **	-0.0115 (0.86)	-0.0833 (0.25)
<i>Female_BM_YN</i>	-0.2478 (0.35)	-0.3183 (0.17)	-0.3943 (0.15)	-0.1537 (0.51)	-0.2760 (0.27)
<i>Chairman tenure</i>	0.0068 (0.69)	0.0028 (0.87)	0.0127 (0.35)	-0.0086 (0.47)	0.0190 (0.18)
<i>Chairman age</i>	-0.0077 (0.59)	-0.0071 (0.64)	0.0255 (0.06) *	0.0238 (0.11)	0.0358 (0.02) **
<i>Own_5_largest</i>	0.0021 (0.61)	-0.0009 (0.85)	0.0016 (0.69)	-0.0013 (0.75)	-0.0061 (0.18)
<i>Ln_turnover</i>	0.0760 (0.06) *	0.0599 (0.12)	0.0665 (0.06) *	0.0685 (0.06) *	0.0626 (0.15)
<i>ROA</i>	0.0036 (0.59)	0.0143 (0.06) *	-0.0040 (0.56)	-0.0032 (0.70)	-0.0071 (0.36)
<i>Sector</i>	0.5645 (0.12)	0.5111 (0.17)	0.2973 (0.40)	0.0676 (0.84)	-0.0809 (0.80)
<i>Board_evaluation</i>	0.2849 (0.24)	0.5926 (0.02) **	0.5525 (0.04) **	0.3353 (0.15)	0.4777 (0.06) *
Wald Chi2	10.21	19.85	18.95	12.72	21.31
Pseudo R2	0.0363	0.0600	0.0586	0.0332	0.0689
OBS	147	147	147	145	147

Table 11, cont.

Dependent / independent variable	Review of business plan, strategy, objective, budget	Clear financial objectives	Clear non- financial objectives	Board work efficient	Functional boundary between owners, board, management
<i>Board_size</i>	-0.0526 (0.45)	-0.0854 (0.25)	-0.0005 (0.99)	-0.0331 (0.64)	-0.0648 (0.25)
<i>Female_BM_YN</i>	-0.4713 (0.07) *	0.1536 (0.53)	0.1469 (0.53)	-.1376 (0.59)	0.3707 (0.099) *
<i>Chairman tenure</i>	0.0131 (0.43)	0.0331 (0.014) **	0.0020 (0.87)	0.0180 (0.22)	0.0348 (0.01) ***
<i>Chairman age</i>	0.0223 (0.12)	0.0024 (0.842)	-0.0098 (0.48)	-0.0102 (0.51)	-0.0170 (0.15)
<i>Own_5_largest</i>	-0.0126 (0.002) ***	-0.0061 (0.12)	0.0064 (0.08) *	-0.0010 (0.82)	-0.0030 (0.43)
<i>Ln_turnover</i>	0.1132 (0.007) ***	0.0861 (0.03) **	0.0130 (0.70)	0.0668 (0.13)	0.1224 (0.000) ***
<i>ROA</i>	-0.0059 (0.40)	-0.0007 (0.93)	-0.0123 (0.101)	0.0080 (0.30)	0.0002 (0.98)
<i>Sector</i>	-0.0571 (0.86)	-0.0622 (0.84)	-0.0405 (0.90)	0.4650 (0.13)	0.9434 (0.007) ***
<i>Board_evaluation</i>	0.4097 (0.12)	-0.0600 (0.82)	0.6341 (0.012) **	0.3471 (0.15)	0.3529 (0.15)
Wald Chi2	22.22	14.01	13.83	11.98	29.55
Pseudo R2	0.0868	0.0395	0.0410	0.0385	0.0703
OBS	147	146	145	144	146