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Determinants of the quality of external board evaluation in the UK

Abstract

Purpose – This study examines the influence of the following on the quality of externally facilitated board evaluation: timing of adoption of external board evaluation, type of evaluators, and the independence of external facilitators.

Design/methodology/approach – The statements on board evaluation in annual reports of a sample of FTSE 350 companies were content analysed to measure the quality of externally facilitated board evaluation. We then used descriptive analysis and inferential statistics to demonstrate the possible association between the timing of adoption as well as the type and independence of external facilitators, and the quality of externally facilitated board evaluation.

Findings – Results reveal some effects of the timing of adoption as well as the type and independence of external facilitators on the quality of externally facilitated board evaluation.

Practical implications – Shareholders should be aware of the timing of adoption as well as consider the types and independence of external facilitators, given their influence on the quality of externally facilitated board evaluation. Regulatory authorities should provide more specific guidance on what types of professional organisations can be engaged as external facilitators and on the implementation of externally facilitated board evaluation, in order to promote its quality.

Originality/value – Several studies have provided theoretical accounts on how board evaluation should be conducted to ensure its effectiveness. However, there is a dearth of empirical literature, which examines the quality of externally facilitated board evaluation. This study develops a quality measure for externally facilitated board evaluation and shows the effect of the timing of adoption, types and independence of external facilitators on its quality. Our study forges ahead an institutional theorising of external board evaluation.

Keywords Board evaluation, institutional theory, external facilitators, content analysis, United Kingdom

Paper type Research paper

External board evaluation in the UK

1.0 Introduction

Board evaluation in the UK has received heightened attention in recent years after the legitimacy, integrity and accountability of the board directors were seriously questioned, following the financial malfeasances by many large companies (UK House of Commons Treasury Committee, 2009). While self-evaluation of the effectiveness of the board of directors and its committees has long been seen to enhance the accountability of the board of directors (NYSE, 2009), scholars continue to highlight the risks of self-evaluation being used as a self-serving exercise (Conger & Lawler, 2003), given its minimalist approach (Long, 2006). To overcome these limitations, an externally facilitated evaluation of the board of directors has been recommended (Nordberg and Booth, 2019; Walker, 2009; Kiel and Nicholson, 2005). For example, the Financial Reporting Council (FRC) incorporated the provision of externally facilitated board evaluation into the UK corporate governance (CG) Code - 2010 based on the recommendation of Walker Review (FRC, 2010). The FRC has kept this provision unchanged in subsequent revisions of the codes (e.g., FRC, 2018)[1] and many countries promptly embraced externally facilitated board evaluation into their new CG codes (Nordberg and Booth, 2019).

However, prior studies on external board evaluation have only developed frameworks (Nordberg and Booth, 2019; Minichilli *et al.*, 2007; Kiel & Nicholson, 2005) or recommended using the balanced scorecard (Epstein and Roy, 2004a; Epstein and Roy, 2004b) to evaluate the performance of the board of directors. Few other studies have examined the usefulness of the balanced scorecard in evaluating board performance and offered mixed evidence (Aly and Mansour, 2017; Northcott and Smith, 2011; Ling *et al.*, 2009). In addition, a very scant empirical studies in this space have used a limited number of survey or interview responses to understand the types of board evaluation conducted by companies and their possible consequences (Booth and Nordberg, 2020; Rasmussen, 2015; Dulewicz and Herbert, 2008). However, there is a paucity of empirical research that examines the quality of externally facilitated board performance evaluation and its possible determinants.

Against this gap in the literature, the objectives of this paper are twofold. First, we ascertain whether the timing of adoption of externally facilitated board evaluation influences its quality. Second, given that the external facilitators are at the centre of externally facilitated board evaluation, we examine whether the types and independence of external facilitators influence the quality of board evaluation. Our study is informed by institutional theory which provides a useful theoretical lens to explore practice variation in CG mechanisms (Cuomo *et al.*, 2016; Zattoni and Cuomo, 2008; Adegbite, 2010). For instance, Zattoni & Cuomo (2008) has applied the institutional theory to explain the differences in the scope and stringency of CG codes adopted by civil law and common law countries. Institutional theory has also been used to explain differences in knowledge, expertise and interests of professional firms and how these lead to variation in their professional work (Muzio *et al.*, 2013; Suddaby *et al.*, 2009).

Our analyses were performed using data from FTSE350 companies between 2009-2013, given that only the FTSE350 companies are subject to the provision of externally facilitated board performance evaluation.[2] Based on the year of the first-time adoption of the externally facilitated board evaluation i.e., during 2009 – 2013, we classify sample firms into five year groups. Similarly, we classify sample firms into seven and three categories based on the types and independence of external facilitators, respectively. An exploratory approach was used to determine the types of external facilitators. The difference in the quality of externally facilitated board evaluation among these firm groups was then tested using inferential statistics. We measure the quality of externally facilitated board evaluation across three dimensions using content analysis (Krippendorff, 2012; Neuendorf, 2002) of the statement on board evaluations in annual reports. The findings suggest that there is variation in the quality of externally facilitated board evaluation depending on the timing of adoption by firms. Furthermore, the quality differs among the group of firms categorised based on the types and levels of independence of external facilitators. However, this variation is not always statistically significant. Consistent with institutional theory, our study concludes that the timing of adoption and the characteristics of external professional firms create some variation in the quality of externally facilitated board evaluation.

Our study contributes to the literature on board performance evaluation in the following ways. First, we provide evidence on the influence of the timing of adoption of externally facilitated board evaluation on its quality. Therefore, this study responds to the call of Cuomo *et al*. (2016) who invited scholars to explore practice variation in CG mechanisms across firms over time following institutional theory. Second, we contribute to the limited empirical literature on board evaluation (Booth and Nordberg, 2020) by showing some association between the types and independence of the external facilitators, and the quality of board evaluation. While many scholars (e.g., Minichilli *et al.*, 2007; Long, 2006; Kiel and Nicholson, 2005) and policy initiatives (e.g., FRC, 2010) maintained that the characteristics and independence of external facilitators are critical, no prior study investigates the effect of types and independence of external facilitators on the quality of board evaluation. This study forges ahead discussions in this area. Finally, our findings are relevant to policymakers and stakeholders in the UK and countries that have incorporated externally facilitated board evaluation. Shareholders should especially be aware that characteristics of external professional firms appointed for the facilitation of board evaluation have a crucial bearing on the quality of implementation of board evaluation. The rest of this paper is organized as follows. The next section reviews the extant literature on board performance evaluation. In section 3, we motivate our research questions using a neo-institutional theoretical lens. Our research methodology is explained in section 4. Section 5 presents our findings and section 6 discusses our results, while presenting some implications for theory, practice, and future research.

2.0 Literature Review

Board evaluation comprises the evaluation of the performance of the board as a cohesive unit, its committees and individual directors. The goal should be to increase the effectiveness of the whole board and not to target nor intimidate poor performers (Carey 1993; Adegbite 2010). The benefits of board evaluation include detection of specific deficiencies in existing board working arrangements/processes and suggesting remedial actions to rectify them (Ingley and van der Walt, 2002; Conger *et al.*, 1998). This, in turn, enhances board task performance and its ability to monitor managerial and firm performance (Conger and Lawler, 2003). The associated challenges of board evaluation include the risk of triggering conflicts among directors and harming collegiality in the boardroom (Conger and Lawler, 2003; Heracleous and Luh Luh, 2002). However, researchers argued that when board performance evaluation is well executed, its benefits outweigh its associated challenges (Adegbite, 2015).

Board evaluation can be via self-evaluation, which is when the board evaluates itself without any significant external help (Adegbite, 2010). Bassett (1998) argues that board self-regulation when done in an objective, measurable, and meaningful manner, is effective and should be a regular part of every board's routine. Indeed, the extant literature and past CG codes refer to self-evaluation as a common method to evaluate the board of directors (e.g., FRC, 2003; Conger and Lawler, 2003). Self-evaluation entails that the board chairperson, nomination committee or an appropriate internal representative such as the company secretary administers the data collection to understand individual directors' perception about the performance of the board and their own. It has the benefits of being less costly and offers confidentiality from outsiders (Kiel and Nicholson, 2005). However, individual directors may not raise concerns and may provide the highest possible scores to themselves in self-evaluation (Booth and Nordberg, 2020; Kiel and Nicholson, 2005). Research also shows that self-evaluation fails to result in any action for the improvement of board working arrangements and processes (Booth and Nordberg, 2020; Rasmussen, 2015). In sum, self-evaluation runs the risk of being a self-serving exercise (Adegbite, 2015). To overcome these limitations, external board evaluation was recommended in the UK in 2010 (FRC, 2010) and subsequently, in many other countries (Nordberg and Booth, 2019).

External board evaluation involves the engagement of an external consultant or professional to facilitate board evaluation (Kiel and Nicholson, 2005). External facilitation, although more costly, reduces the self-serving bias (Long, 2006). Moreover, the external facilitators have a better experience, a higher exposure to other board practices and greater independence. They are, therefore, in a better position to provide recommendations to rectify deficiencies in existing board arrangement and processes (Kiel and Nicholson, 2005). Prior studies on external board performance evaluation have prescribed frameworks (Minichilli *et al.*, 2007; Murphy and McIntyre, 2007; Kiel and Nicholson, 2005; Nicholson and Kiel, 2004; Ingley and van der Walt, 2002) such as the balanced scorecard (e.g., Epstein and Roy, 2004a; Epstein and Roy, 2004b). Kiel and Nicholson (2005) argued that a successful framework needs to consider (1) the objectives of the evaluation, (2) the group to be evaluated (e.g., whole board, board committees, and individual members), (3) the content of the evaluation, (4) the respondents of the evaluation, (5) the methods of data collection, (6) the evaluators, and (7) the use of results of the evaluation. Murphy and Mclntyre (2007) integrate prior research on group dynamics and CG and advance a comprehensive model of board performance evaluation. Minichilli *et al.* (2007) further recommend a systematic approach to board evaluation by relating (a) the evaluators, (b) the content, (c) the addressee and other stakeholders for whom the board is evaluated, and (d) the methods of data collection.

An appropriate approach to board evaluation should also ensure that (1) right evaluation processes are in place (Minichilli *et al.*, 2007; Conger *et al.*, 1998), (2) appropriate contents are evaluated (Nordberg and Booth, 2019; Minichilli et al., 2007; Conger *et al.*, 1998) and (3) suitable remedial actions are taken based on the outcome of evaluation to enhance board task performances (Kiel and Nicholson, 2005). In an effective board evaluation process, good planning should be the first step (Kiel and Nicholson, 2005). This plan can consist of setting a clear objective (Minichilli *et al.*, 2007; Conger et al., 1998), selecting an appropriate external facilitator (Kiel & Nicholson, 2005), ensuring the independence of the external facilitator (FRC, 2010) and setting important areas of board evaluation based on a meeting between the external facilitator and the internal authority responsible for board evaluation (Conger *et al.*, 1998; Kiel and Nicholson, 2005). Then, the evaluation method needs to be comprehensive enough to retrieve relevant data (Minichilli *et al.*, 2007). Finally, processing of data and dissemination of results could constitute the final step of the board evaluation process (Kiel and Nicholson, 2005). Collier (2004) maintained that the board, its committees and individual directors should receive the board evaluation feedback.

Furthermore, to achieve improved task performances from board evaluation, prior research and the UK CG Codes agreed that the content of an externally facilitated board evaluation should be appropriate. Minichilli *et al.* (2007) contend that the content of evaluation of the board as a cohesive unit should focus on (i) board tasks, (ii) board membership, (iii) board culture and processes, and (iv) board leadership and structure. They also maintained that board committee evaluation should focus on the presence, composition and working style of board committees, while the FRC (2011, p. 11) recommended an appraisal of the overall effectiveness of board committees and their connection with the board. At the level of appraisal of individual directors, the literature recommends a review of individual director's (1) knowledge of business and management (Nadler, 2004; Conger and Lawler, 2003; Lawler *et al.*, 2002), (2) commitment to obtain information and devote time to take adequate preparation and attend board and committee meetings (Nordberg and Booth, 2019; Conger & Lawler, 2003), (3) contribution to board task performance (Minichilli *et al.*, 2007; FRC, 2011) and (4) integrity (Nadler, 2004; Conger and Lawler, 2003). Finally, the achievement of the aim of board performance evaluation depends on the formulation of an action plan based on the outcomes of board evaluation (Sroufe and Naficy, 2005; Kiel and Nicholson, 2005). The action plan should delineate future changes in board arrangements and processes, which are targeted at enhancing board task performance (FRC, 2011). However, the performance of these tasks largely depends on the quality and timeliness of the information that the board receives and the board's knowledge about the business and industry (Conger *et al.*, 1998). The FRC (2011) therefore recommends that the outcome of board evaluations should be used to improve the effectiveness of board secretariat and design board support and development activities.

While the foregoing shows that research on best practice recommendations regarding board evaluation is extant, empirical research in this area is scarce (Booth and Nordberg, 2020). More so, the few studies in this area frequently relies on survey or interview responses from a limited number of respondents, due to the difficulty in accessing high profile board members. However, scholarly interest in external board performance evaluation has been renewed recently due to the recent policy initiative to improve board accountability in the UK (Booth and Nordberg 2020; Rasmussen, 2015; Dulewicz and Herbert, 2008). Dulewicz and Herbert (2008) surveyed 29 FTSE350 company secretaries and find that board performance evaluation results in significant changes in board membership. However, Rasmussen (2015) provides opposite evidence based on a comparative case-study of nine companies in Norway. She finds that seven companies take a minimalist approach where they neither apply an effective board evaluation process nor take any action based on the evaluation outcomes. Booth and Nordberg (2020) examine directors' preference for self-evaluation versus externally facilitated board performance evaluation. They interviewed 17 directors from small companies and concluded that external board evaluation received increased acceptance among the directors as self-evaluations fails to uncover the true performance of the board.

In the main, empirical research on board evaluation have used a limited number of respondents (e.g., Rasmussen, 2015) or respondents from small companies which are not subject to externally facilitated board evaluation (e.g., Booth and Nordberg, 2020) and thereby, lacking sufficient scope as well as generalisability in their findings. Moreover, prior literature fails to investigate the effect of timing of adoption as well as types and independence of the external facilitators on the quality of board evaluation, especially following a recent regulatory change. Our study addresses these gaps in empirical literature by documenting the difference in the quality of externally facilitated board evaluation based on the timing of its adoption and the types and independence of the external facilitators employed.

3.0 Theoretical framework and research questions

While prior literature promoted externally facilitated board evaluation as a mechanism to improve board efficiency and effectiveness (e.g., Nordberg and Booth, 2019; Minichilli *et al.*, 2007), the recent recommendation of externally facilitated board evaluation in the UK emerged from a CG review initiated to restore an institutional legitimacy crisis. Therefore, an institutional theory lens helps us in our objective of explaining practice variation in the implementation of externally facilitated board evaluation.

Institutional theory suggests that the timing of adoption of a new practice is associated with the variation in the implementation of the practice (Westphal *et al.*, 1997; Tolbert and Zucker, 1983). Classical institutional theorists maintained that efficiency (rational) reasons govern early adoption, and social legitimation reasons direct later adoption (Westphal *et al.*, 1997; Tolbert and Zucker, 1983; Okike and Adegbite, 2012). Also, early-adopting organizations motivated by efficiency reasons implement the new practices more comprehensively (Zattoni & Cuomo, 2008). Conversely, later adopting organizations acting to achieve and maintain legitimacy implement the new practices symbolically (Meyer and Rowan, 1977; Zattoni and Cuomo, 2008), a process that DiMaggio and Powel (1983) called an institutional isomorphism. Institutional isomorphism can be of three kinds, namely: 1) coercive isomorphism exerted by regulators and dominant stakeholders; 2) mimetic isomorphism originating from goal ambiguity or institutional uncertainty; and 3) normative isomorphism stemming from professional and trade associations (DiMaggio and Powell, 1983; Aguilera and Cuervo-Cazurra, 2004; Sobhan, 2016). This argument has been supported in prior empirical studies of the adoption of CG codes across countries (Zattoni and Cuomo, 2008) and CEO long-term incentive plan (Westphal and Zajac, 1994).

Alternative arguments, however, suggest that later adopters face fewer uncertainties about the benefits and characteristics of a practice as they have an opportunity to observe and assess the benefits gained by the early adopters (Jacobs *et al.*, 2016). Also, later adopters have better information and knowledge about the practice which they can acquire from the experience of early adopters (Terlaak and Gong, 2008) as well as from external sources (e.g., consultants) (Ritchie and Melnyk, 2012). Moreover, later adopters get more time to assess the alignment between their cultural and political aspects and characteristics of the new practice (Ansari *et al.*, 2010). As a result, later adopters are better equipped to implement the practice more efficiently and extensively. Consistent with this argument, prior empirical evidence shows that early adopters implement the new practice less comprehensively than later adopters (e.g., Fiss, *et al.*, 2012; Kennedy and Fiss, 2009).

The recommendation of externally facilitated board evaluation is unique as companies are subject to comply or explain non-compliance with it every three years (FRC, 2010; 2018). This CG provision, therefore, offers additional discretion to companies regarding the timing of its adoption. While prior literature promoted externally facilitated board evaluation as a mechanism to improve board efficiency/effectiveness (e.g., Nordberg and Booth, 2019; Minichilli *et al.*, 2007), the process of emergence and incorporation of the recommendation in the UK CG code suggests that companies are subject to a high level of isomorphic pressures to adopt it. Normative pressures are intensified due to its incorporation in the UK CG Code – 2010 as well as subsequent codes by the FRC (Sobhan, 2014; Adegbite *et al.*, 2011). Moreover, the revision of listing regimes to include the recommendation of externally facilitated board evaluation heightened coercive isomorphic pressures (Sobhan and Bose, 2019; Sobhan, 2016). Most of the institutional investors who responded to the Walker Review and the revision of the earlier UK Combined Code advocated externally facilitated board evaluation as a device to improve the degree of objectivity of board effectiveness reviews.[3] This preference of active investors heightened coercive and mimetic isomorphic pressures for compliance (Sobhan, 2016; Aguilera and Cuervo-Cazurra, 2004). However, there were no regulatory guidance for the implementation of externally facilitated board evaluation when it came into effect on 29 June 2010. The FRC's guidelines on board effectiveness issued in 2011 also did not feature much on the process of assessment and the characteristics of external facilitators. Moreover, the market for external facilitation has been underdeveloped (FRC, 2009, p. 23).

As a result, while early adopters may have an intention to the practice more extensively, they may face a high level of institutional uncertainty because of lack of guidance, knowledge-base and established external facilitators. This uncertainty may, however, provide an opportunity for late adopters to model their practice on the experience of early adopters and implement externally facilitated board evaluation more comprehensively. We, therefore, apply a dynamic analysis to examine how the quality of externally facilitated board review has evolved. Thus, our first research question is as follows:

> RQ1 Is the timing of first-time adoption of externally facilitated board evaluation associated with the quality of its implementation?

An agentic turn within neo-institutional theory acknowledges the agency and interests of professional firms as a causal agent of institutional change (Muzio *et al.*, 2013; Greenwood *et al.*, 2002; Adegbite and Nakajima, 2012). Professional firms within the institutional field of a profession differ in knowledge and capabilities (Suddaby *et al.*, 2009), thus creating a variation in their conduct and the quality of their professional work (Malhotra and Morris, 2009). In the case of externally facilitated board evaluation, external facilitators could be regarded as important professional agents. Prior exploratory research suggests that the market for external facilitation is underdeveloped (FRC, 2009, p. 23) and alternative types of professionals and professional firms such as board effectiveness consultancies, professional service firms, as well as recruiting and search firms offer external facilitation (Chambers, 2017). These professionals/professional firms differ regarding ownership, expert knowledge, scope of operation and the range of services offered (Chambers, 2017). This variation in the characteristics of external facilitators may have a bearing on the quality of external facilitation of board review. Thus, our second research question is as follows:

> RQ2 Are the types of external facilitators associated with the variability in the quality of implementation of externally facilitated board evaluation?

Moreover, due to the shift in a profession's logic from a trustee to a commercial one (Muzio *et al.*, 2013; Suddaby *et al.*, 2007), an increased conflict of interests hinders professional judgments and quality of professional work (Suddaby *et al.*, 2009; Moore *et al.*, 2006). Many researchers and regulatory agencies, therefore, endorsed independence as a critical instrument to avoid conflict of interests (e.g., Sikka, 2015; Moore *et al.*, 2006) and increase the objectivity of board evaluation (Kiel and Nicholson, 2005; Minichilli *et al.*, 2007). The FRC's (2010) recommendation to disclose any relationship between the company and external facilitators also suggests that the independence of external facilitators is a critical element that can influence objectivity. The Walker Review emphasized the complete independence of the external facilitators to avoid conflict of interests.[4] We aim to shed light on whether the degree of independence of external professional firms engaged in facilitation influence the quality of evaluation. Thus, our third research question is as follows:

> RQ3 Is the independence of external facilitators associated with the quality of implementation of externally facilitated board evaluation?

4.0 Research methodology

4.1 Sample

The Walker Review was commissioned in February 2009 with its initial conclusion and recommendations published in July 2009. Therefore, we initially selected FTSE350 firms in the UK on 30 June 2009. There were 355 firms on 30 June 2009. We excluded equity and property investment trust companies (70 firms), as these companies are subject to different CG standards. Additional 71 companies were excluded as these firms remained in the FTSE350 index for less than three consecutive accounting periods since 29 June 2010, which was the date when externally facilitated board evaluation came into effect and thus, these firms were not subject to comply with the recommendation, thus leaving us with 214 firms. Another 19 firms failed to comply with the recommendation of an externally facilitated board evaluation within consecutive three accounting periods from 29 June 2010. Therefore, the final sample consisted of 195 firms. Table 1 summarises our sample selection for this study.

[Insert Table 1 about here]

4.2 Classification of external facilitators

We applied an exploratory approach to classify the external facilitators, due to limited information (Chambers, 2017). The names of the facilitators were retrieved from statements on board evaluation in the annual reports of companies. Out of 195 firms, 164 firms disclosed the names of their external facilitators. We then used internet search to locate their websites. If there exists a webpage of the external facilitator, we saved the mission statement and main services provided into a Microsoft Word file. If no relevant website was found, the nature of business (SIC) was retrieved from the Company House. Two independent coders classified the external facilitators based on mission statements and/or nature of business (SIC). The descriptions of primary services provided, where available, were further used to confirm the initial classification. The two coders discussed any disagreements and reached an agreement where possible. If the two coders failed to reach an agreement or sufficient information about the external facilitators was not available, the external facilitators were classified as 'Other organizations'. Using this procedure, we were able to sort 45 different external facilitators, providing services to 164 sample firms, into six types. Based on the disclosure in the annual reports of our sample firms, the external facilitators were classified as independent if there is no other business relationship with the company, non-independent if other business relationship exists, and 'dubious relationship' if the company does not make it clear.

4.3 Content analysis

A content analysis (Krippendorff, 2012; Neuendorf, 2002) of the statements on board evaluation in the annual reports was employed to measure these three dimensions of quality of external board evaluation: (1) the process used, (2) the content covered, and (3) the suggestions provided. These dimensions were selected based on the board evaluation frameworks prescribed in prior literature (e.g., Nordberg and Booth, 2019; Minichilli *et al.*, 2007; Murphy and McIntyre, 2007; Kiel and Nicholson, 2005; Nicholson and Kiel, 2004; Epstein and Roy, 2004a; Epstein and Roy, 2004b; Conger *et al.*, 1998).

The content analysis of CG statements in annual reports is widely used in prior literature in researching the quality of both compliance (e.g., Arcot *et al.*, 2010; Akkermans *et al.*, 2007; v Werder *et al.*, 2005) and non-compliance (e.g., Lepore *et al.*, 2018; Shrives and Brennan, 2015) with CG codes. The content analysis is also widely used in financial accounting literature for researching accounting disclosures and narratives (e.g., Unerman, 2,000; Aerts and Cormier, 2009; Hooks and van Staden, 2011). The content analysis allows repeatability (Krippendorf,

2012) and enables researchers to make valid, quantifiable inferences based on narrative documents (Neuendorf, 2002). Concern has, however, been raised about reliability (Beattie and Thomson, 2007; Van der Laan Smith *et al.*, 2005), and to improve our reliability, we selected disclosure categories from well-grounded relevant literature, used empirically driven coding instruments, and coding was done by two experienced researchers, independently (Guthrie *et al.*, 2003; Milne and Adler, 1999).

This study adopted an empirically driven approach to the design of the instruments of the content analysis. Based on prior theoretical and practice-based literature on board evaluation, we designed the coding instruments for each of the three quality dimensions (Appendices 1 – 4). Once the coding instruments were designed, we analysed each sentence of the statements on board evaluation within the annual reports of 20 companies (Milne and Adler, 1999) and applied an appropriate scale to score each sentence for quality. The use of sentences as both coding and measurement units is recommended to enhance completeness, reliability and meaning of the data (Unerman, 2,000; Milne and Adler, 1999). Based on the results of this initial coding, we made necessary modifications to the coding instruments.

We then independently coded the annual reports of another 55 companies. Cronbach's (1951) alpha was performed to ensure inter-coder reliability (Guthrie *et al.*, 2003; Milne and Adler, 1999). The alpha coefficients, although varying among board evaluation process, the content of board evaluation and the suggestions provided by the external facilitators for improvement, highlighted a good level of inter-coder reliability. We then coded the board evaluation statements in the annual reports of the remaining companies that conducted an externally facilitated evaluation for the first-time between 2009 and 2013 (Guthrie *et al.*, 2003).

4.3.1 Content analysis of board evaluation process

Relying on prior literature (Minichilli *et al.*, 2007; Kiel and Nicholson, 2005; Conger *et al.*, 1998), and following the initial coding of 20 statements on board evaluation, a final coding guideline for the board evaluation process was developed as presented in Appendix 1. It captures (1) sound planning (4 items), (2) use of comprehensive data collection methods to retrieve relevant data as detailed below, (3) communication of evaluation feedback to board, committees and individual directors (8 items), and (4) designing of an agreed-upon action plan to improve board task and practices (1 item). We used a binary score for most of these items (Beattie and Thomson, 2007). However, we scored three elements on a different scale, where data collection method was the most important among them.

Similarly, we identified nine data collection methods used in board evaluation: one to one discussion, standardised questionnaire, tailored questionnaire, benchmarking against the best practice or CG codes, document analysis, structured interview, semi-structured interview, participant observation and psychometric testing. All methods of appraisal suffer from certain limitations (Kiel and Nicholson, 2005) and thus, we only rank methods if one method is clearly superior to others (Milne and Adler, 1999). For instance, we gave a lower score to a structured interview compared to a semi-structured interview because a structured interview does not offer the opportunity to further probe. Moreover, board evaluation based on input from directors alone may run the risk of becoming highly subjective and self-serving (Conger *et al.*, 1998; Epstein and Roy, 2004a). Our coding of evaluation methods thus captured input from a range of respondents. Where the company did not disclose the respondents specifically, then the members of the board were presumed to be the respondents. Furthermore, in line with Ingley and van der Walt (2002) and Garratt (1997), we assume that the combination of different assessment methods achieves more robust results. Hence, when the external facilitator applied different methods of data collection, the relevant company-specific score was derived by totalling the scores assigned to different methods. A guide used for coding the methods data collection for board evaluation is presented in Appendix 2. The Cronbach's (1951) alpha coefficient for board evaluation process was calculated to be 0.91, which highlights a good level of inter-coder reliability (Milne and Adler, 1999).

4.3.2 Content analysis of the content of board evaluation

With regards to the content of board evaluation, the coding process covered the performance evaluation of (1) the board as a cohesive unit (Conger and Lawler, 2003; Minichilli *et al.*, 2007), (2) board committees (Kiel & Nicholson, 2005) and (3) individual members of the board (Conger and Lawler, 2003; Minichilli *et al.*, 2007). Following the content of board evaluation as a cohesive unit suggested by Minichilli *et al.* (2007), our coding instrument included the assessment of board's (i) tasks performance (4 items), (ii) membership (4 items), (iii) culture and processes (5 items), and (iv) leadership and structure (5 items). Using the extant theoretical and empirical literature on board task performance (Machold and Farquhar, 2013; Minichilli *et al.*, 2009; Ruigrok *et al.*, 2006; Van Den Heuvel *et al.*, 2006; Hillman and Dalziel, 2003; Zahra and Pearce, 1989), we developed a list of actions for each of (a) the strategic tasks, (b) the monitoring and control tasks and (c) the networking tasks (see Appendix 3). However, several companies in the initial sample of 20 companies did not elucidate what individual board task they have assessed in their board evaluation. Thus, we extended our coding scheme to include an item for the existence of a statement that the externally facilitated board evaluation 'assessed the board effectiveness in performing its tasks' (Epstein and Roy, 2004b). We scored each sentence based on whether it provides a general statement of the assessment of overall board task effectiveness, or alternatively, on each of the three broad board tasks or individual activities associated with them. See subsection one of section one in Appendix 3 for the coding scheme and coding examples for board tasks.

For board membership content, our final coding scheme includes (1) board diversity, (2) board balance – mix of skills, experience, knowledge and capabilities, (3) board tenure, and (4) board independence (FRC, 2010; Minichilli *et al.*, 2007; Ingley and van Der Walt, 2003; Conger *et al.,* 1998). Here board diversity is used to capture the demographic diversity such as gender, nationality and cultural background of the directors. We scored each sentence based on how many board diversity and balance attributes are assessed. See subsection two of section one in Appendix 3 for the coding scheme and associated coding examples.

To assess board culture and processes, the third element of the evaluation of the board as a cohesive unit, our coding instrument captures board culture, which refers to aspects such as (i) board dynamics and (ii) board cohesiveness (Nadler, 2004) and board process operationalised by items such as (i) board decision-making process (Forbes and Milliken, 1999; Wang and Ong, 2005), (ii) quality of board information and papers (Collier, 2004; Sonnenfeld, 2002) and (iii) board time management (FRC, 2011). While several companies in our initial sample provided brief disclosures and mentioned assessment of 'board culture, board process', others went further and made relatively detailed disclosures. To capture this detailed disclosure, we scored each sentence based on the number of elements of board culture and board process mentioned in the sentence. See subsection three of section one in Appendix 3.

The final element of the content of evaluation of the board as a cohesive unit is board leadership and structure. Based on prior literature, our initial coding scheme included aspects such as (i) board terms of reference (Kiel and Nicholson, 2005); (ii) policies relating to board support

(Kiel and Nicholson, 2005); (iii) board size (Linck *et al.*, 2008), (iv) board composition (Linck *et al.*, 2008), (v) performance of chairman of the board (Neubauer, 1997). None of the 20 companies that were coded initially disclosed board size as an element of evaluation. Regarding the evaluation of the chairman's performance, several companies disclosed that their board evaluation reviewed specific leadership aspect of the chairman (Leblanc, 2005; FRC, 2011). On the other hand, the chairman's performance was not subject to external evaluation for many companies. Hence, we adjusted our coding scheme to reflect these empirics (See subsection four of section one in Appendix 3).

The evaluation of board committees is recommended to be an integral part of board evaluation (Kiel and Nicholson, 2005). This initial coding scheme includes an evaluation of (1) the overall effectiveness of board committees (FRC, 2011), (2) connection of board committees with the main board (FRC, 2011; Long, 2006), and (3) structure and composition of board committees (Long, 2006; Minichilli *et al.*, 2007). However, we found that several of our initial 20 companies did not evaluate board committees at all. Moreover, some companies evaluated all board committees while others evaluated a selection of board committees. Furthermore, several companies evaluated board committee content that were not recommended in prior literature (e.g., terms of reference of the committees). Hence, our final coding scheme for board committee evaluation was adjusted based on these empirics (see section two of Appendix 3).

The final level of board evaluation is the evaluation of the individual director performance (Nordberg and Booth, 2019; Kiel and Nicholson, 2005; Conger *et al.*, 19982). Our initial coding scheme for this included (1) knowledge of business and management, (2) commitment to their roles, (3) contribution to board task performance, and (4) integrity of the directors (Nadler, 2004; Conger & Lawler, 2003). However, our coding of the preliminary 20 companies revealed that many companies did not evaluate the performance of individual directors. Moreover, companies that did evaluate the performance of individual directors were only briefly concerned about the evaluation of commitment to their roles and contribution to board task performance, probably because these two items are highlighted in the FRC (2011) guideline. Hence, the individual director's knowledge of business and management, and integrity were deleted from our initial coding scheme (see section three of Appendix 3. The alpha coefficient was calculated to be 0.88, which highlights a satisfactory level of inter-coder reliability (Milne and Adler, 1999; Cronbach 1951).

4.3.3 Content analysis of suggestions for improvement

Our aim here is to capture the number of suggestions provided by the external facilitators for the improvement of board task performance. Therefore, our unit of measurement is the recommended action. Based on prior theoretical literature (Machold and Farquhar, 2013; Minichilli *et al.*, 2009; Ruigrok *et al.*, 2006; Van Den Heuvel *et al.*, 2006; Hillman and Dalziel, 2003; Zahra and Pearce, 1989), we developed a list of actions for each of (a) the *strategic tasks,* (b) the *monitoring and control tasks,* (c) the *networking tasks.* In the case of dilemmas, we relied on the theory that appears more likely to ask for a particular action. One example is an increase in board independence. Both agency and resource dependency theory require greater board independence. However, agency theory makes a stronger case in favour of a more independent board. Hence, an increase in the board independence suggestion is regarded as an action leading to better monitoring of task performance. Other suggestions that are difficult to fit into a particular board task but may help the board of directors better perform all tasks were categorized into two groups: (1) suggestions leading to improved effectiveness of board secretariat and (2) suggestions leading to better board support and development (FRC, 2011).

A final coding scheme containing a total of 30 actions: (a) the *strategic tasks* (4 actions), (b) the *monitoring and control tasks* (11 actions), (c) the *networking tasks* (3 actions), (4) suggestions leading to improved effectiveness of board secretariat (5 actions) and (e) suggestions leading to better board support and development (7 actions) was developed. We then coded each recommended action using a binary indicator (1 for presence and 0 for absence) (Brennan, 2001) (see Appendix 4). The alpha was calculated to be 0.76, which highlights a satisfactory level of inter-coder reliability (Milne and Adler, 1999; Cronbach 1951). The individual company score for the evaluation process, the content of evaluation and suggestions for improvement of board practices was scaled by the maximum possible score of 38, 43 and 30 respectively to ensure better comparison among groups.

4.4 Data Analysis

When the sample firms were divided into groups based on the timing of adoption of externally facilitated board evaluation, types and independence of external facilitators, there were unequal group size. Moreover, the test of homogeneity of variances was not always rejected. Hence, we used Welch Analysis of Variance (ANOVA) to compare the means of each the groups of firms. When Welch ANOVA is statistically significant, we used the Games-Howell post hoc test to test for the differences in means among all possible combination of groups of firms. Fir brevity, we only report the combination of groups of firms where the difference between means is statistically significant.

5.0 Results

5.1 Timing of adoption and the quality of external board evaluation

As mentioned in section 4.1, 195 out of 214 FTSE350 firms (91.12%) complied with the recommendation of externally facilitated board evaluation. Table II presents the distribution of these firms based on their timing of adoption between 2009 and 2013. Table II shows that the number of firms, which adopted externally facilitated board evaluation for the first-time increased from 27 in 2009 to 47 in 2012. The sharp escalation in the first-time adoption from 2009 to 2010 and subsequent years showed the impact of the UK CG Code - 2010, which came into effect on 29 June 2010. Also, a reduced number of FTSE350 firms adopted externally facilitated board evaluation for the first time in 2013 as most of them already complied with the recommendation in earlier years.

[Insert Table II about here]

Our first research question asks whether the timing of first-time adoption of externally facilitated board evaluation is associated with its quality. The results are summarized in Table II. The sample average scores for the evaluation process, the content evaluated and the suggestions provided for improvement of board practices are 0.20, 0.18 and 0.07 respectively. The detailed analysis reveals that 83 firms out of 195 compliant firms (42.56%) did not implement a single action based on the suggestions of external facilitators. This suggests poor quality of the implementation of external board evaluation (see also: Rasmussen 2015). However, the average scores for all three quality dimensions exhibited an increasing trend from 2009 to 2011. The average scores for all three quality dimensions for 2011 are also higher than their grant means. This may suggests that institutional uncertainty resulting from the lack of guidance from regulatory and professional authorities, knowledge-base and absence of established external facilitators diminished over time, perhaps after publication and dissemination of guidelines on board evaluation by the professional associations (e.g., IoD, 2010) and regulatory agencies (i.e., FRC, 2011). The average scores for all quality dimensions, however, significantly declined from 2011 to 2012 and then slightly increased in 2013. The firms that adopted for the first-time in 2013 have received the highest number of suggestions for improvement of board practices, but they have lower average scores for evaluation process and content than firms that adopted in 2011.

The ANOVA results indicate that the quality of externally facilitated board evaluation across all three dimensions is significantly different among the firms that adopted the practice in 2009 to 2013. The *p*-values for the quality dimensions of process applied, content evaluated, and suggestions provided were 0.001, 0.029 and 0.030, respectively. These results suggest that the quality of externally facilitated board evaluation differs among firms based on the timing of their first-time adoption. We further used Games-Howell post hoc test of multiple comparisons for the five year groups (2009-2013). Firms that adopted in 2011 have a significantly higher level of quality across all three dimensions than the firms that adopted in 2009. The *p*-values for mean difference between these two groups of firms on process applied, content evaluated, and suggestions were 0.001, 0.005 and 0.089, respectively. Moreover, firms that adopted in 2013 have received significantly higher number of suggestions from the external facilitators than firms that adopted in 2009 ($p=0.071$). The findings, however, failed to indicate any other statistically significant difference in the quality of externally facilitated board evaluation between the groups of firms that adopted in 2009 and in 2010, 2012 or 2013.

5.2 Types of facilitators and quality of external board evaluation

The second research question (RQ2) investigated whether the external facilitator types are associated with the quality of board evaluation. Table III presents the results. The average quality scores across all three dimensions are above the grant means for firms that engaged board effectiveness consultancies. In contrast, the means of the evaluation process applied, and suggestions provided for improvement are lower than sample means when the firms appointed headhunting and search firms or headhunting and leadership consultancies. Similarly, the means of all quality dimensions are lower than their grant means when the external facilitators are unknown. The expertise and specialized knowledge of board effectiveness consultancies appears to be an explanatory factor for the relatively better-quality implementation.

[Insert Table III about here]

Table III shows that there is a statistically significant difference regarding the evaluation process applied between the groups of firms that engaged different types of external facilitators ($p = 0.003$). The ANOVA results, however, fail to indicate any statistically significant difference regarding the content of board evaluation and suggestions provided for improvement between groups of firms that engaged different types of external facilitators. The *p*-values for these dimensions were 0.417 and 0.570, respectively. The results of Games-Howell post hoc test of multiple comparisons show that firms that engaged board effectiveness consultancies have a statistically significant higher average quality in term of the process applied than firms that appointed professional service firms, headhunting and leadership consultancies, and unknown external facilitators.

5.3 Independence of facilitators and quality of external board evaluation

On the independence of external facilitators and the quality of implementation of externally facilitated board evaluation (RQ3), the descriptive statistics suggests that firms that engaged independent external facilitators have the highest average scores across all three-quality dimensions (Table IV). In contrast, firms that appointed non-independent facilitators have the least average scores for evaluation process applied and received a lower average number of suggestions for future improvement than firms that engaged independent facilitators (Table IV). Similarly, when the relationship between the external facilitators and the firms is dubious, the average scores across all three-quality dimensions are lower than the grant means (Table IV). The ANOVA results (Table IV) show that the means of the board evaluation and suggestions provided differ significantly based on whether the firms appointed external facilitators that are independent, non-independent, or have dubious relationships with the firms. The *p*-values for these dimensions were 0.0000 and 0.0159, respectively. However, the ANOVA results fail to indicate any significant difference regarding the content appraised in board evaluation among these external facilitator groups.

[Insert Table IV about here]

The results of multiple comparisons show that the independent external facilitators applied significantly better board evaluation process than non-independent ones (p=0.001) and the facilitators whose relationship with the firms is unclear (p = 0.005). However, the mean of the board evaluation process of non-independent external facilitators is not significantly different from those whose relationships with the firms is unknown. The independent ones recommend a higher number of suggestions for further improvement of board task performances than those whose relationship with the firms is dismal (p=0.005). The mean of the number of recommendations for further improvement, although not statistically significantly different, is also higher than that of non-independent external facilitators. Overall, the results indicate that the external facilitators' independence matters for the quality of board evaluation.

6.0 Discussion, implications and future research

The incorporation of externally facilitated board evaluation into the UK CG Code - 2010 and in the subsequent UK CG Codes offers an exciting opportunity to investigate the quality of external board evaluation and its determinants. In this paper, using FTSE350 companies as a sample and developing a measure of the quality of externally facilitated board evaluation, we examined the influence of the following on the quality of externally facilitated board evaluation: timing of adoption of external board evaluation, type of evaluators, and the independence of external facilitators. Our results show that the quality of externally facilitated board evaluation is an artefact created by the timing of first-time adoption and types and degree of independence of facilitators. This is a useful addition to the meagre literature in this space, which have mainly examined the pros and cons of self-versus externally facilitated board performance evaluation (e.g., Booth and Nordberg 2020; Rasmussen, 2015; Dulewicz and Herbert, 2008). Moreover, these prior studies investigate neither the quality of externally facilitated board evaluation nor its determinants. Our paper, developing a measure of the quality of external board evaluation and demonstrating some effects of the timing of adoption and types and degree of independence of external facilitators on it, augments the limited empirical research in this space (Booth and Nordberg, 2020).

Our findings also have forge ahead an institutional theorising of external board evaluation. The possible effect of the timing of first-time adoption of externally facilitated board evaluation on its quality indicates an inverse U-shape relationship. This evidence completely supports the view of neither classical institutional theorists (Westphal *et al.*, 1997; Tolbert and Zucker, 1983) who argue that early adopters embarking on efficiency reasons implement a new practice more comprehensively than later adopters. Moreover, the evident association between the independence of professional firms and the quality of board evaluation confirms that the existence of a conflict of interest could undermine the intended purpose of engaging an external professional. This evidence supports the view that when a conflict of interests emanating from other pecuniary relationships between the professional firms and their client companies, it negatively affects the quality of professional works (Sikka, 2015; Suddaby *et al.*, 2009).

The findings of this study are also relevant to proponents of externally facilitated board evaluation and policymakers. It appears that board evaluation consultancies applied more rigorous processes and provided a higher number of recommendations for improvement to board task performance. This is the same for firms that engaged independent external facilitators. These insights may suggest that the proponents (e.g., Walker, 2009) and regulators (e.g., FRC, 2011) should specify the types of external professionals who can be engaged as external facilitators for board evaluation and also, make the independence of external facilitators mandatory. Our study further provides insights to practitioners, particularly institutional investors who should consider the types and independence of facilitators when assessing the quality of board evaluation. Until the policymakers/regulators mandate the independence of facilitators, institutional investors could act as a watchdog to enforce it.

In conclusion, this study measures the quality of externally facilitated board evaluation using content analysis of a large number of statements on board evaluation in annual reports. However, the disclosures in annual reports are influenced by managerial interests and firms' cost-benefit analysis of such disclosures. For instance, companies may not disclose negative aspects of the evaluation (e.g., the number of suggestions received for further improvement of board practices) in their annual reports. No doubt, annual reports are considered as one of the vital and credible sources of data by users (Beattie *et al.*, 2004) and are the basis on which formal decisions (e.g., investment decisions) are taken. However, future research may use the content analysis of the statements on external board evaluation in the annual reports in addition to other methods such as interviews, focus groups and other qualitative approaches.

Moreover, this study classifies external facilitators based on their main services offerings. However, the quality of external facilitation may also depend on the size of the professional firms (e.g., large professional service firms versus single person controlled small firms), and experience, knowledge and expertise of the person who led the facilitation. Therefore, our classification of external facilitators could be improved in future studies which may explore the association between more specific types of external facilitators and the quality of board performance evaluation. Finally, future research could also examine the effect of the quality of externally facilitated board evaluation on outcome variables (e.g., firm performance). Also, the consequences of the quality of board evaluation have not been investigated in the current nor in any previous study. In addressing this gap, future studies could use the coding instruments developed in this paper, as a starting point.

Notes

1. The recommendation is incorporated intact in all subsequent UK Corporate Governance Codes. For example. The UK Corporate Governance Code – 2018 stated the following. Evaluation of the board of FTSE 350 companies should be externally facilitated at least every three years (FRC, 2018: Provision 21).

2. This provision for externally facilitated board evaluation applies to FTSE350 companies who are expected to conduct this review at least once every three years (FRC, 2010: B 6.2). Because of divergence in accounting periods followed by the FTSE350 companies, some firms could remain compliant with this recommendation if they conduct an externally facilitated performance evaluation of board of directors as late as 31 December 2013. Hence, the adoption of the externally facilitated performance evaluation of board of directors is in its formative stages.

3. For instance, Railpen Investments (2009, p. 5) in their comment letter to the Walker Review stated the following. "*We recommended that the FRC look to introduce a requirement for an independent, external evaluation process to be undertaken periodically, say, at least once in every three years in order that shareholders can have confidence in the validity and stringency of the process*."

4. For instance, FairPensionTM (2009, p. 16) made following suggestions to the Walker Review. "*We think that in no circumstances should the external evaluator have any other business relationship with the company or be permitted to have one for a substantial period (at least five years) after the evaluation*".

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Table I
Sample selection process

	No. of firms
FTSE 350 companies on 30 June 2009	355
Less: Equity and real estate investment trust company	70
	285
Less: Firms do not remain in the FTSE 350 for three accounting period since June 2010	71
	214
Less: Firms that do not adopt externally facilitated board evaluation within three full accounting period since June 2010	19
Final sample	195

Table II

Quality of externally facilitated board performance evaluation by the timing of first-time adoption

Year of first-time adoption of board evaluation	Firms (n=195)	Process applied				Content evaluated				Suggestions for improvement			
		Mean	S.D	Min	Max	Mean	S.D	Min	Max	Mean	S.D	Min	Max
2009	27	0.15	0.08	0	0.26	0.14	0.10	0	0.44	0.05	0.06	0	0.17
2010	41	0.19	0.09	0	0.34	0.16	0.09	0	0.35	0.06	0.08	0	0.27
2011	42	0.23	0.06	0.1	0.37	0.23	0.11	1	0.42	0.09	0.07	0	0.23
2012	47	0.19	0.10	0	0.42	0.17	0.10	0	0.47	0.06	0.07	0	0.30
2013	38	0.21	0.11	0	0.47	0.19	0.10	0.02	0.42	0.10	0.09	0	0.40
Total	**195**	**0.20**	**0.09**	**0**	**0.47**	**0.18**	**0.11**	**0**	**0.46**	**0.07**	**0.08**	**0**	**0.40**
Significance of overall difference across years of adoption		p = 0.001				p = 0.029				p = 0.030			
Pairwise differences													
2009 versus 2011		p = 0.001				p = 0.050				p = 0.089			
2009 versus 2013		-								p = 0.071			

This table presents the quality of implementation of externally facilitated board evaluation based on timing of first-time adoption. Quality is measured across three dimensions: the process applied, content evaluated, and suggestions provided for improvement. They are derived using Appendix 2, 3 and 4 respectively. Pro-active adopters; Early adopters; Later adopters; Followers and Laggards respectively indicate firms that adopted externally facilitated board evaluation for the first time in financial year ended in 2009, 2010, 2011, 2012 and 2013.

Table III

Quality of first-time adoption of externally facilitated board evaluation by types of external facilitators

Types of external facilitators	**Firms (n=195)**	**Process applied**				**Content evaluated**				**Suggestions for improvement**			
		Mean	S. D	Min	Max	Mean	S. D	Min	Max	Mean	S. D	Min	Max
Board effectiveness consultancies	62	0.24	0.08	0.10	0.47	0.19	0.10	0.00	0.42	0.08	0.08	0.00	0.30
Professional services firms	42	0.18	0.09	0.00	0.34	0.20	0.13	0.00	0.47	0.09	0.09	0.00	0.40
Headhunting and search firms	11	0.15	0.10	0.00	0.32	0.18	0.11	0.10	0.42	0.06	0.06	0.00	0.16
Headhunting and leadership consultancies	18	0.16	0.09	0.00	0.29	0.18	0.11	0.00	0.47	0.05	0.06	0.00	0.16
Organisational and leadership development consultancies	21	0.21	0.11	0.00	0.42	0.15	0.11	0.00	0.44	0.07	0.08	0.00	0.30
Other organizations	10	0.21	0.08	0.10	0.34	0.17	0.12	0.00	0.37	0.10	0.09	0.00	0.23
Unknown external facilitators	31	0.17	0.09	0.00	0.34	0.15	0.09	0.00	0.33	0.06	0.06	0.00	0.23
Total complied	**195**	**0.2**	**0.09**	**0.00**	**0.47**	**0.18**	**0.11**	**0.00**	**0.47**	**0.07**	**0.08**	**0.00**	**0.40**
Significance of overall difference across types of facilitators		**p=0.003**				**p=0.417**				**p =0.570**			
Pairwise differences													
Board effectiveness consultancies versus professional service firms		p=0.024				N/A				N/A			
Board effectiveness consultancies versus headhunting and leadership consultancies		p=0.024											
Board effectiveness consultancies versus unknown external facilitators		p=0.030											

Quality is measured across three dimensions: the process applied, content evaluated, and suggestions provided for improvement. They are derived using Appendix 1, 3 and 4 respectively. The external facilitators are classified as independent if there is no other business relationship between the external facilitator and the company, otherwise as non-independent. If the company does not make a clear statement on their relationship with their external facilitators, the company is classified as 'relationship is not made clear'.

Table IV

Quality of first-time adoption of externally facilitated board evaluation by levels of independence of external facilitators													
Independence of external facilitators	**Firms (n=195)**	**Process applied**				**Content evaluated**				**Suggestions for improvement**			
		Mean	S. D	Min	Max	Mean	S. D	Min	Max	Mean	S. D	Min	Max
Independent	121	0.22	0.09	0.00	0.47	0.19	0.10	0.00	0.42	0.08	0.10	0.00	0.40
Non-independent	30	0.15	0.08	0.00	0.32	0.19	0.13	0.00	0.47	0.07	0.08	0.00	0.30
Relationship is not disclosed	44	0.16	0.09	0.00	0.34	0.15	0.10	0.00	0.44	0.05	0.10	0.00	0.23
Total complied	**195**	**0.20**	**0.09**	**0.00**	**0.47**	**0.18**	**0.11**	**0.00**	**0.46**	**0.07**	**0.08**	**0.00**	**0.40**
Significance of overall difference across levels of independence of facilitators		**p=0.000**				**p = 0.165**				**p = 0.012**			
Pairwise differences													
Independent versus non-independent		p=0.000								-			
Independent versus Relationship is not disclosed		p=0.005				N/A				p=0.014			
Non-independent versus relationship is not disclosed		-								-			

Quality is measured across three dimensions: the process applied, content evaluated, and suggestions provided for improvement. They are derived using Appendix 1, 3 and 4 respectively. The external facilitators are classified as independent if there is no other business relationship between the external facilitator and the company, otherwise as non-independent. If the company does not make a clear statement on their relationship with their external facilitators, the company is classified as 'relationship is not made clear'.

Appendix 1

Coding Scheme for Process of Board Evaluation

Items	Coding	Examples from Annual Reports
1. Planning		
An objective of an externally facilitated board evaluation is stated.	1=Yes, 0 = No	1 = In order to enhance the Board's performance and effectiveness, we engaged an external consultant (A.G.Barr plc, 2014)
Selection process of the external facilitator is described.	1=Yes, 0 = No	1 = Three candidates were selected from a number of companies. They were then invited to make presentations to the Chairman and the Senior Independent Director, following which IBE were engaged (Henderson Group plc, 2011).
The external facilitator is independent.	2 = Independent	2= Dr Long has no other connection with the company (GlaxoSmithKline PLC, 2011).
	1= Not independent	1 = Schneider Ross was appointed to conduct an evaluation of the Board and its committees, having previously provided inclusive leadership training to the Company in 2009 (National Grid plc, 2013).
	0 = Relationship is not made clear	
A discussion between the external facilitator and an internal authority responsible for board evaluation.	1=Yes, 0 = No	1 = The Chairman agreed the scope of the review, which included individual interviews with each Board member and attendance and observation at the April 2013 Board meeting (Genus plc, 2013).
2. Methods of data collection used	**Appendix 2**	
3. Dissemination of results		
A preliminary report is prepared and discussed with an internal authority responsible for board evaluation.	1=Yes, 0 = No	1 = The outcome of the review was first discussed with the Chairman, the Deputy Chairman and the Company Secretary collectively (Inmarsat plc, 2013)
A final evaluation report is prepared and delivered.	1=Yes, 0 = No	1 = The findings of this external evaluation process were presented in report format (Michael Page International plc, 2013)
The evaluation results are released to all board members.	1=Yes, 0 = No	The results of the evaluation were shared with all members of the Board (A.G.Barr plc, 2014)

The evaluation results are discussed in a board meeting.	2 = In presence of the facilitator 1= Without presence of the facilitator 0 = No discussion of evaluation results held	2 = Lintstock presented this report to the Board in February 2012 (HomeServe plc, 2012) 1 = The findings of the evaluation were then discussed by the Board as a whole (Hiscox plc, 2011).
The feedback on board committee effectiveness is delivered to respective chairmen.	1=Yes, 0 = No	1= The reports relating to the Board committees will be discussed with the chairmen of these committees (Kier Group plc, 2011)
Feedback on board committees is discussed in respective board committee meetings.	1=Yes, 0 = No	1 = In addition, all three committees agreed to take actions based on evaluation of their performance (ICAP plc, 2012)
The Chairman used the facilitator's feedback on individual director's performance.	1=Yes, 0 = No	The individual Director's performance reports were provided to the Chairman, which the Chairman then discussed with each Director as appropriate (Aveva plc, 2014).
The external facilitator's report informs the discussion between Senior Independent Director and other non-executive directors on the Chairman's performance.	1=Yes, 0 = No	After taking account of the results of the Chairman's formal performance evaluation our Senior Independent Director provided feedback to the Chairman on a one-to-one basis (Imperial Tobacco Group plc, 2009).
4. The board of directors determines a board development action plan based on external appraiser's recommendations.	1=Yes, 0 = No	An action plan has been agreed by the Board to address the recommendations made from the review (Berkeley Group Holdings plc, 2013).

Appendix 2

Coding scheme for method of data collection

Name of the methods	**Scale**	**Respondents**	**Examples**
One-to-one discussion	4	Board members, company secretary, executives and external stakeholders only.	3 = Coefficient undertook detailed discussions with the Directors, the Company Secretary and the Divisional Chief Executives (Persimmon plc, 2012). 2= MWM undertaking individual consulations with each Board member and the Company Secretary on board performance (Vodafone Group plc, 2010). 1 = One-to-one discussions between each Director and the external consultant (Admiral Group plc, 2010).
	3	Board members, company secretary and executives only	
	2	Board members and company secretary only	
	1	Board members only	
Standardised questionnaire	4	Board members, company secretary, executives and external stakeholders only.	4 = ... including regular attendees and two external advisors, were invited to complete structured questionnaires (National Grid plc, 2013). 2 = the completion of comprehensive questionnaires in which Directors and the Company Secretary were asked to evaluate the Board (InterContinental Hotels Group plc, 2011). 1 = The evaluation was conducted by the completion of detailed and comprehensive written survey questionnaires (A.G.Barr plc, 2013).
	3	Board members, company secretary and executives only.	
	2	Board members and company secretary only.	
	1	Board members only	
Tailored questionnaire	5	Board members, company secretary, executives and external stakeholders only.	5 = ... then tailored questionnaires specifically for United Utilities, which were completed by all board members, committee members and by the senior managers ....by third party advisors to the various committees (United Utilities Group plc, 2012). 2 = Questionnaires tailored to the specific circumstances of the Company were completed by each director on the Chairman, in relation to their own performance (Ladbrokes plc, 2010).
	4	Board members, company secretary and executives only.	
	3	Board members and company secretary only.	
	2	Board members only	
Benchmarking	1	Against the best practices and codes	1 = Performance was considered by reference to the objectives of the Board and its committees (Ashmore Group plc, 2012)

Document analysis	3	Board and committee papers as well as any other relevant documents	3 = Office based review of Board and Committee documents, policies and procedures (Ferrexpo plc, 2013)
	2	Board and committee papers	2 = The evaluation also included a detailed review of Board and Committee papers (Antofagasta plc, 2013).
	1	Board papers only	1 = together with a review of Board papers (Colt Group SA, 2011).
Structured interview	4	Board members, company secretary, executives and external stakeholders only.	4 =...followed by confidential structured interviews with the directors, the company secretary together with senior members of the management team and major shareholders (Grainger plc, 2011)
	3	Board members, company secretary and executives only.	3 = followed by structured interviews of Directors and key executives with representatives from Egon Zehnder International (Barcleys plc, 2010)
	2	Board members and company secretary only.	2 = each of the Directors and the Company Secretary were then individually interviewed using structured questions (Dairy Crest Group plc, 2012).
	1	Board members only	Simon Osborne interviewed each of the Directors and the Chairman using a pre-defined question plan (British American Tobacco plc, 2010)
Semi-structured interview	5	Board members, company secretary, executives and external stakeholders only.	5 = ….and semi-structured interviews with all Directors, the Company Secretary and a selection of senior managers, shareholders and the Company's stockbrokers (Informa plc, 2010).
	4	Board members, company secretary and executives only.	4 = undertook a series of semi-structured one-on-one interviews with the Chairman, each member of the Board and the General Counsel and Company Secretary (Compass Group plc, 2013).
	3	Board members and company secretary only.	3 = The evaluation consisted of individual semi-structured interviews with each Director and the Company Secretary (Dunelm Group plc, 2013)
	2	Board members only	2= The evaluation methods include...semi-structured interviews with individual directors (Beazly plc, 2012)

Participant observation	3	Board and committee meetings as well as social events (e.g., board dinner)	3 = Dr Long attended and observed an entire Board cycle including formal Board and Committee meetings and informal sessions including dinners (Colt Group SA, 2011)
	2	Board and committee meetings only.	2 = She observed the Board, Audit Committee and Remuneration Committee meetings (BBA Aviation plc, 2011)
	1	Board meeting only	1 = The evaluation methods include….attendance at board meetings (Beazly plc, 2012).
Psychometric testing	1	Board members	1= ...the Board's performance review included psychometric assessment of Board members (Old Mutual plc, 2011)

Appendix 3
Coding scheme for content covered in board evaluation

Items	Coding	Examples from Annual Reports
Section 1: Evaluation of Board as a cohesive unit		
1. Board task performance		
Assessment of board tasks/overall performance Assessment of strategy tasks and individual strategy task.	0/1 Additional 1for assessment of strategy tasks or for each individual strategy task	1= facilitator was engaged to provide me with an understanding of the dynamics and **performance of the board** (BP plc, 2009). 4 = Directors' views were sought on the **Board's strategic and operational oversight** and its input into **risk management and internal control** (InterContinental Hotels Group plc, 2011).

Assessment of monitoring tasks and individual monitoring task.	Additional 1 for assessment of monitoring tasks or for each individual monitoring task	5= The board questionnaire focused on **the performance of the board** throughout the past year in the areas of **strategy, performance management, management succession, risk management** (Diageo plc, 2011). 6 = to gather their views overall on **how the Board is working** and on specific areas considered most valuable (including: **strategy; financial monitoring; risk management;** Board dynamics; balance and composition; and **succession planning and HR** (Croda International plc, 2012).
Assessment of networking tasks and individual networking task.	Additional 1 for assessment of networking tasks or for each individual networking task	
2. The board membership		
Board diversity including gender, nationality and cultural background.	0/1	1= We also specifically asked Directors for their views on **the diversity of the Board** (Aggrekp plc, 2011). 1= **Skills balance** has also been addressed in our external Board evaluation (Dunelm Group plc, 2013).
Board balance - Mix of skills, experiences, knowledge and capabilities	0/1	2 = Particular consideration was given to **the balance of skills and experience**. Other key areas considered during the review were **the Board's diversity including gender** (Mitie Group plc, 2013).
Board tenure	0/1	3 = an appropriate **balance of skills, experience, independence, diversity (including gender) and knowledge** of the Company to enable the Directors ... (easyJet plc, 2012).
Board independence	0/1	
3. The board culture and processes		
Board culture Board dynamics/key board relationships	0/1 And/or 1 = Assessed board dynamics	1 = ..view to asessing whether **the interaction of the Board** creates a whole that is greater than the sum of its parts (Barcleys plc, 2009). 2 = **Effectiveness of meetings and team dynamics**

Board cohesiveness	And/or 1 = Assessed board cohesiveness	(Electrocomponents plc, 2013). 2 = **the culture and contribution of the Board** is very positive and features high quality debate and challenge (BBA Aviation plc, 2011). 3 = This included a review of **the culture and dynamics of the Board, the information** provided to the Board (Hiscox plc, 2011).
Board process/practices and procedures	Additional 1 = Assessed board process	3 = The review ...included consideration of **the quality of briefings received from management**, whether the **Board's time was well managed** and whether sufficient time was reserved for the key issues facing the Company, **the quality of discussion at meetings** (Shire plc, 2009). 4 = **Board dynamics and relationships; processes, information flows and decision making** (Hays plc, 2010).
Decision making process	And/or 1 = Assessed board decision making process	
Quality of board information and papers	And/or 1 = Assessed quality of board information and papers	
Board time management /Prioritisation of/allocation of time for agenda based on importance	And/or 1 = Assessed board time management	
4. Board leadership and structure		
Board leadership	0/1	1 = whether the Board provided **effective leadership** of the Group (BTG plc, 2012).
The board's terms of reference	0/1	1 = The way in which the board **defines its role** (Berendsen plc, 2011)
Board composition	0/1	1 = The current **composition** of the Board (Essentra plc, 2012).
Board support and development	0/1	1 = ….and **the support** afforded to the Board (Melrose Industries plc, 2013).
Evaluation of Chairman performance	0/1	1= to carry out an external evaluation of ….including **an evaluation of its Chairman** (Informa plc, 2010).
	Additional 1 = each area of performance assessed	2= there was **strong leadership** by the Chairman (GlaxoSmithKline plc, 2011).
Section 2: Evaluation of board committees		

Evaluation of board committees	1 = Mentioned 'board committees';	1 = ... undertook an externally facilitated evaluation of…. **its committees** (Ashmore Group plc, 2012).
	2= Mentioned specific board committees	2= ... also evaluated the **Audit, Remuneration and Nomination** Committees (Hays plc, 2010).
A conclusion on overall committee effectiveness	1 = Conclusion on effectiveness drawn	1 = The report concluded that ... its committees continue to **operate effectively** (KAZ Minerals PLC, 2009).
Structure and composition of board committees	1 = Assessed composition	1 = To re-evaluate **the membership** ... of the Board Committees (BTG plc, 2012)
Board committee process/operation	1 = Assessed process	1 = To re-evaluate the... **operation** of the Board Committees (BTG plc, 2012)
The board committees' terms of reference	1 = Assessed terms of reference	1= …. **terms of reference** of the Board Committees (Carillion plc, 2012)
Quality of board committee information and papers	1 = Assessed quality of information	1= ...r**elevance and accuracy** of the information provided to ... its committees (Stagecoach Group plc, 2013)
Section 3: Evaluation of Individual Director Performance		
Evaluation of individual board members	1= Assessed	1 = The consultants considered the performance of .. **each board member** (G4S plc, 2011)
Individual director's contribution to board task performance	Additional 1 = Assessed contribution to board tasks	2= ... other members of the Board were able to **devote sufficient time to their roles** (Shire plc, 2009).
Individual director's commitment to board roles	Additional 1 = Assessed commitment	3 =….assess that each director is **maximising their contribution and demonstrating commitment** to their role (Mondi plc, 2010).

Appendix 4

Coding scheme for suggestions for improvement

Main tasks	Individual tasks	Coding	Examples
1. Suggestions to improve board task performance			
Strategy tasks	Introduction or enhancement of strategic away day(s)	0/1	1 = ….actions arising included enhancements to the annual Board strategic 'away days' (Catlin Group plc, 2013).
	More time for strategic discussions.	0/1	1 = Making more time in regular Board meetings for strategic debate (Centrica plc, 2011).
	Profiling skills of new directors specific to company strategy.	0/1	1 = ..the Board will continue to focus on ensuring that it has the appropriate level of skills and experience in relation to the strategic objectives of the business (Hays plc, 2010).
	Enhancement of board process to better engage in strategy development.	0/1	1 = More time to be spent defining the Board's risk appetite (Dunelm Group plc, 2013).
Monitoring tasks	Appointment of independent directors.	0/1	….we appointed two Non-Executive Directors (Genus plc, 2013).
	Review and monitor succession planning for board of directors.	0/1	1 = The Board succession plan will remain a regular Board agenda item (Dunelm Group plc, 2013).
	Review and monitor succession planning for executive management.	0/1	1 = The Board will be developing succession planning for the Group Chief Executive (Croda International plc, 2012).
	Review of board size, composition, balance and diversity.	0/1	1= Ensuring that a wide range of skills, experience, background and diversity on the Board is maintained (Barcleys plc, 2010).
	Review of size and composition of board committees.	0/1	1 = The Board to plan its composition over the next five to six years, to optimise its effectiveness (GlaxoSmithKline plc, 2011).
	Review the terms of reference of board of directors.	0/1	1 = Revisiting our matrix of delegated authorities so that the Board best uses the finite amount of time available to it (Petrofac plc, 2010).
	Review the terms of reference of board committees.	0/1	1 = The remit and objectives of committees ….. will be formally reflected in amended terms of reference (William Hill plc, 2012).

	Review the executive remuneration policy.	0/1	1 = ...the Group undertook a review of its remuneration policies …. to incentivise the delivery of its strategy (Imperial Tobacco Group plc, 2011).
	Review the risk management and internal control procedure.	0/1	1= Following this review, a new risk management framework ... will be implemented throughout the Group (Melrose Industries plc, 2013).
	Increase level of performance oversight.	0/1	1= Key performance metrics have been agreed with the Board and are now reviewed annually (Premier Farnell plc, 2013).
	Increase level of strategic oversight.	0/1	1= A review of the strategy was held in March 2013 and further annual reviews are scheduled (Premier Farnell plc, 2013).
Networking tasks	Increase board support to executive directors to implement strategic plan.	0/1	1= To provide enhanced support to the Chief Executive Officer and executive board in executing the strategic plan (Berendsen plc, 2011).
	Improve board interaction with shareholders.	0/1	1= The board should ….find ways to expose non-executive directors more directly to shareholders' views (Bae Systems plc, 2010).
	Increased focus on the protection of interests of stakeholders.	0/1	1= The Board has addressed the issues of better stakeholder management suggested in the review (Afren plc, 2011).
2. Suggestions to improve effectiveness of board secretariat			
	Improve the content of board information and papers.	0/1	1 = Outcomes of the strategic and risk discussions at the Board Planning Conference to be included within each Board pack (BG Group plc, 2012).
	Improve the timeliness of circulating board papers.	0/1	Circulate Board papers at least four days (including two working days) before the Board meeting (National Express Group plc, 2011).
	Review the timing of board and committee meetings.	0/1	1= ... will review the overall timetabling of Board and Committee meetings (Croda International plc, 2012).
	Review the agenda items for board and committee meetings.	0/1	and agenda design to ensure the most efficient use of the Board's time (Croda International plc, 2012).
	Strengthen the interaction between baord secretariat team and board.	0/1	The appointment of a dedicated Company Secretary will allow more time for ongoing improvements in Board processes (William Hill plc, 2012).

3. Suggestions to improve board support and development		
Improve the Board's insight into day-to-day operation of companies.	0/1	1 = Develop the programme …..to deepen directors' understanding of the Group's operations and performance.
Improve the Board's insight into industry and competitors' trend.	0/1	1= Board members will be provided with more information on technical issues, market trends and political developments (Fresnillo plc, 2011)
Improve the Board's insight into new laws and regulations.	0/1	1= Improving the board's knowledge and understanding of water regulation and the different regulators' agendas (United Utilities Group plc, 2012).
Arrange Board's visit of sties or factories premises.	0/1	1 = Further consideration to having more site visits (DS Smith plc, 2012).
Create more opportunities for the Non-Executive Directors to informally interact with senior management.	0/1	1 = Using the informal time Directors spend together for further discussions which would complement the formal Board meetings (DS Smith plc, 2012).
Arrange better training opportunities for board members.	0/1	1= …establish a programme of continuing development tailored to Directors' needs and requirements (Booker Group plc, 2013).
Review and improve board induction process.	0/1	1 = …will tailor induction and development programmes for individual Directors (BG Group plc, 2012).