

A COMPARATIVE ANALYSIS OF THE BOARD EVALUATION IN EUROPEAN ENTITIES: ITALY VS UK

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Abstract

Board evaluation is an evaluation of the performance of the board of directors and its committees, as well as their size, composition and operation. The aim of this paper is to investigate how entities do the evaluation of the performance of the board and how they disclose the self-assessment. We analysed the largest forty constituents of both Italy's FTSE MIB index and the UK's FTSE 100 index. The results show that although Corporate Governance Codes' requirements are similar, implementation of these requirements and the related disclosure continue to show significant differences. The UK companies seem to have a stronger "forward-looking" approach compared to Italian companies. Disclosure provided by Italian companies is too often not enough to enable stakeholder understanding of the process and its outcome. This research contributes to the literature by providing results on the evaluation of boards of directors: regulators, practitioners and researchers must deal with this topic in order to strengthen the rules of corporate governance.

Keywords: Board Evaluation, Corporate Governance Code, European Entities, Non-European Entities, Annual Reports, Descriptive Analysis

Classifications codes: G300 - G320 - G340

1. INTRODUCTION

Board evaluation (also called board assessment) is an evaluation of the performance of the board of directors and its committees, as well as their size, composition and operation.

Board evaluation is an Anglo-Saxon board practice, where listed companies have a large number of shareholders and usually there is no parent company that controls the firms. Having a well-functioning board, well-balanced in terms of executive and non-executive directors and in terms of skills, where issues are discussed and debated thoroughly is essential in order to guarantee that directors represent the best interests of corporation. This has become increasingly necessary over the last few years, due to the effects of the financial crisis, the investors' doubts about director remunerations and so on. A regular review of board composition, performance, behavior and dynamics contributes to enhancing board effectiveness and filling the identified gaps.

However, as it is appropriate to conduct a board evaluation, it is also important to disclose its process and outcome. Investors are demanding that the process and outcome be disclosed because communicating positive results may stimulate boards and investors to the benefit of the whole company. Moreover, acknowledging the areas that need improvement helps proving that boards have a responsible and proactive approach.

Since board evaluation has become a valuable best practice, listed companies have been requested to conduct periodic performance assessment by many national regulations, mainly through corporate governance Codes. These Codes and the related

requirements regarding board evaluation have been continuously updated.

For some years, board evaluation is widespread not only in the UK and other Anglo-Saxon countries, but also in countries where corporate governance models are quite different, such as Italy, France and Germany. Different corporate governance models and different cultural approaches influence companies' board evaluation and companies' disclosure about it, irrespective of any similarities in corporate governance codes.

Imposing board evaluation by legislation (or corporate governance code) may result in a 'box-ticking exercise', with low or nil value. Only if the board assessment is appropriate and focused could the process really help companies strengthen their board effectiveness. Of course, this process and outcome are maximized if a 'forward-looking' approach is adopted.

This paper addresses the topic of board evaluation across an empirical research about the information disclosed by the most important listed Italian and UK entities in their annual corporate governance report. In particular, the goal of our research is to analyze the attitude and the way the board evaluation is conducted. The aim of this research is to investigate the state of art of the board evaluation process in Italy and in the UK.

The sample was made up of the listed companies belonging to the Italian Stock Exchange and the London Stock Exchange. In particular, we analyzed the entities belonging to FTSE-MIB index and FTSE 100 index. We analyzed the annual corporate governance report for the year 2013. In total, we investigated 80 listed companies. For every entity we have investigated ten items: in total, we hand collected 800 items.

The remainder of the paper is organized as follows. Section 2 presents the literature review. Data and research design are presented in Section 3. The results are presented in Section 4 and in Section 5 there are the conclusions.

2. LITERATURE REVIEW

Italian corporate governance framework and rules have been substantially modified since 1998 with the introduction of the Draghi Law in order to increase the protection of the minority shareholders.

In Italy, but more in general in Europe, Corporate Governance Reforms have been driven by different factors (Enriques and Volpin, 2007). Kamar (2006) stated that reforms aimed to make national markets more attractive and (Ferran, 2004) stated that the efforts of the European Union was to institute a common framework of rules. Many of the corporate governance reforms are a response to national and international financial frauds and scandals (Enriques, 2003). These events have clearly shown the weakness of the worldwide and Italian corporate governance framework for both listed and non-listed companies. Therefore, in order to rectify the situation appropriately, the legislator, has tried to protect minority shareholders of listed companies. However, Italian corporate governance system it is still "considered poor, characterized by an inactive takeover market, weak accounting standards, limited presence of institutional investor and where the legal protection for investors was low" (Buchanan and Yang, 2005).

The Italian Corporate governance system is characterized by the presence of a strong blockholder that is usually a family (Devalle et al, 2016). In this context laws and regulations have been implemented to improve the Italian rules of Corporate Governance. With reference to the board evaluation, the first rules were introduced by the Corporate governance Code that states (2011): the board of directors shall perform at least annually an evaluation of the performance of the Board of Directors and its committees, as well as their size and composition, taking into account the professional competence, experience (including managerial experience), gender of its members and number of years as director. Where the Board of Directors (BoD) avails of consultants for such a self-assessment, the Corporate Governance Report shall provide information on other services, if any, performed by such consultants to the issuer or to companies having a control relationship with the issuer. Furthermore, the BoD shall taking into account the outcome of the evaluation, report its view to shareholders on the professional profiles deemed appropriate for the composition of the Board of Directors, prior to its nomination.

Rare is the entity that does not periodically review the performance of its key contributors (e.g. business units, senior managers, etc.) but one

contributor usually escapes such review: the board of directors (Conger et al, 1998).

The literature review reflects this gap: in fact to the best of our knowledge, the papers on this topic are very few.

In the last several years many studies have been conducted on the relationship between performance and composition of the board (between the others, Burry and Butler, 1985; Zahra and Pearce, 1989; Conion and Peck, 1998; etc.) but only few studies have been conducted on the performance evaluation of the board of directors in recent years.

Neubauer (1997) described a process for the evaluation of the Chairperson by his or her fellow board members: the author suggested that a three-year evaluation could be a good practise for board evaluation.

Van den Berghe and Levrau (2004) investigated the constituents of a good board of directors in terms of composition, role, processes and remuneration. Besides, they investigated the evaluation process of the BoD. They state that only a small number of companies evaluated the performance of the entire board. The sample was made up of the Belgian companies listed on the Brussels stock Exchange. The total sample was composed by 131 groups.

Kiel et al. (2005) provided a practical introduction to board and director evaluations and they introduced a framework for a successful board or director evaluation. The study was theoretical and they proposed a general approach applicable to board evaluation.

Schmidt and Brauer (2006) focused their research on the assessment of board effectiveness in guiding strategy execution. The paper developed, under a theoretical point of view, a new approach and a set of standard measures in order to assess boards' effectiveness in strategy execution.

Minichilli et al. (2007) presented four different board evaluation systems: (i) board-to-board, (ii) board-to-market, (iii) market-to-board and (iv) market-to-market. The results showed that there is no universal or "one best way" to evaluate board of directors. Board evaluations will not meet their purpose unless there is a fit between the agents, the addressees, the contents and the modalities of the evaluation.

Our research contributes to the literature by providing an empirical analysis of the board evaluation of entities in the Italian context compared to the UK context. Our objective is to verify the application of the board evaluation and the related information disclosed to the investors.

3. METHODOLOGY

In order to verify the application of the board evaluation and the information disclosed, we analyzed a sample of our research made up of 80 listed companies on the Italian and UK Stock Exchange. Table 1 shows the sample composition.

Table 1. Sample composition

Country	No	Total Market capitalization 31 th December 2013 (A)	Market capitalization groups analysed 31 th December 2013 (B)	% B/A
Italy (Eur/Mil)	40	470,730	380,563	80.85%
UK (GBP/Mil)	40	4,257,593	1,544,083	36.27%
Total	80			

The sample included 40 FTSE MIB companies (Italy) and 40 FTSE 100 companies (UK). Appendix 1 reports the groups analyzed.

How we can see in Table 1, our sample is representative of total listed companies in Italy (80.85%). Concerning companies listed in UK, our sample features the 36.27% of the total market capitalization in UK. This is a good percentage if we think the large number of entities listed in London stock exchange.

We based our analysis on the companies' 2013 Annual/Corporate Governance Reports, available on companies websites.

In order to define the perspectives of our study, we started from the Italian and UK corporate governance code.

The Italian corporate governance code was published in March 2006 and then amended many times. In particular, we used the corporate governance code revised in July 2014. One of the objectives of the Italian corporate governance code was to provide best practices in order to increase the protection of minorities by improving the structure of the internal control system and its bodies. To do this, the Italian corporate governance code moved from a voluntary based approach to a comply or explain approach.

With reference to UK companies, we used the UK's corporate governance code revised in September 2014.

Table 2 shows an extract from Italian and the UK corporate governance codes' used in our analysis.

Table 2. Corporate Governance Codes' Requirements.

	<i>Italy</i>	<i>UK</i>
Formal evaluation	At least once a year <u>It is possible to have different approaches during a three-year cycle mandate</u> (*)	At least once a year
Engagement of external evaluator	Not expressly required	Required at least once every three years
If external evaluator is engaged, disclosure about:	<u>Identity</u> * Other connection with the company	Identity Other connection with the company
Subjects of evaluation	- Board - Committees	- Board - Committees - Individual directors - Board Chairman
Disclosure of process	Required	Required
Disclosure of outcome	Required	Not expressly required

(*) Added in July 2014

Culture and corporate governance models influence companies' attitude towards board evaluations and disclosure and this is clear also comparing the two corporate governance codes. In fact, even if they are similar, in the Italian corporate governance code the engagement of an external evaluator is not expressly required, whereas for UK companies is requested at least one every three years. Moreover, only starting from 2014 Italian companies have to disclose the identity of the external evaluator. UK companies have also to assess individual directors and the board chairman, but they are not requested to disclose the outcome of the self-assessment. The self-evaluation depicted by the UK corporate governance code seems to be more based on a "forward-looking approach" compared to the Italian one.

Considering the two approaches, for each company, we analyzed the following areas:

- conducting of board evaluation;
- evaluation process;
- party conducting the evaluation;
- engagement of an external evaluator;
- disclosure of the identity of the external evaluator;
- subjects of evaluation;
- areas of evaluation;
- methodologies for conducting the evaluation;
- outcome of the evaluation;
- follow-up.

Consequently, for every entity we investigated ten items and, in total, we hand collected 800 items.

4. RESULTS

The analysis conducted on 2013 Corporate Governance Reports confirms the different attitudes of Italian and UK companies. In fact, although Corporate Governance Codes' requirements are similar, implementation of these requirements and disclosure of board evaluation activity show significant differences.

The UK companies seem to have a stronger 'forward-looking' approach, with a high number of companies that include, among areas of evaluation, issues other than board structure and processes. Disclosure provided by these companies about areas for improvements, action plan and follow-ups creates a general feeling that board evaluation is viewed as a practice able to enhance board effectiveness and to influence board's activity in the next few years. Moreover, evaluation of directors of individual directors, board chairman and executives contribute to making them more aware of their duties.

Disclosure provided by Italian companies is too often insufficient to enable stakeholder understanding of the process and its outcome. On the other hand, larger Italian companies with an international vision seem to consider board evaluation more valuable, moving towards a 'forward-looking' approach.

Below we report the results of our analysis.

4.1. Board Evaluation Fulfillment

Most Italian companies conducted a board evaluation for the 2013 financial year. All the UK companies conducted an annual evaluation.

Table 3. Board evaluation fulfillment

Board Evaluation	IT		UK	
	No of cases	%	No of cases	%
Conducted Board Evaluation	34	85%	40	100%
Did not conduct Board Evaluation	3	8%	-	-
No disclosure	3	8%	-	-
Total	40	100%	40	100%

Three Italian companies did not conduct a board evaluation in 2013. Among them, two stated that they had not performed any evaluation due to the recent appointment of the Board; moreover, they had both been listed in 2013. Only one company declared its reluctance to board evaluation.

Three Italian companies did not give any disclosure about the Board of Directors' self-assessment: these companies could be considered as

non-compliant, considering the "comply or explain" nature of the Code of Corporate Governance.

4.2. Evaluation Process

The evaluation process is disclosed in nearly every case, even if the quality of the disclosure varies (Table 4).

Table 4. Disclosure of the evaluation process

Evaluation process	IT		UK	
	No of cases	%	No of cases	%
Disclosure of the process	28	82%	40	100%
No disclosure	6	18%	-	-
Total	34	100%	40	100%

Six Italian companies did not explain how the evaluation process was conducted. In one case (Italian company), there was no disclosure because at the date of the Corporate Governance Report the outcome of the self-assessment had not yet been analyzed by the Board of Directors. In four cases (all Italian banks) the companies indicated only the presence of an external evaluator, however without providing any other information about the process (and in two cases out of these four they did not disclose the outcome of the evaluation).

Italian companies did not provide specific information about a three-year cycle approach. Several UK companies clearly described the evaluation process throughout a three-year (or two-year) board mandate. We expect to find more disclosures in 2014 Italian Reports, following the requirements of the recently amended (July 2014) Italian Corporate Governance Code, stating: *"The board evaluation process could be related to the three-year long mandate of the Board of Directors,*

with differentiated procedures during the three-year period"(Comment of article I.C.1.g.).

Some Italian companies have begun to involve statutory auditors in the evaluation process. In some cases statutory auditors simply examined the results, whereas in other cases they were asked to answer questionnaires and/or to take part in interviews.

4.3. Party Conducting The Evaluation

The evaluation process needs to be coordinated. The coordinator/facilitator could be external or internal (Chairman, LID, Committees and other). Some boards evaluate their performance through a combination of both internal coordination as well as externally facilitated assessment. For the purpose of our analysis, in such cases we considered the external consultant to be the "evaluator".

Table 5. Party conducting the evaluation

Evaluator	IT		UK	
	No of cases	%	No of cases	%
Chairman	1	3%	17	43%
Lead Independent Director	3	9%	2	5%
Nomination/Governance Committee or Chairman	5	15%	1	3%
Company secretary/Legal council	-	-	3	8%
External consultant	18	53%	14	35%
No disclosure	7	21%	3	8%
Total	34	100%	40	100%

More than half of the Italian companies engaged an external party in 2013. Only 35% of UK companies engaged an external facilitator in 2013. However, the fact that most UK companies engage

an external party every three years must be taken into consideration. Table 6 shows that all the UK companies make use of an external consultant in the three-year cycle mandate.

Table 6. Engagement of an external party in a three-year cycle mandate

External Board Evaluation in the recent three years	IT		UK	
	No of cases	%	No of cases	%
Conducted	18	55%	40	100%
Did not conducted	14	42%	-	-
No disclosure	1	3%	-	-
Total (three-year cycle)	33	100%	40	100%

When UK companies conduct the board evaluation internally, the Chairman of the Board of Directors is usually the coordinator. Only one Italian listed company uses the Chairman to coordinate internal self-assessment. At some companies, the

Nomination or the Governance Committees or their Chairmen oversee the process.

In Table 7 we show the approach to disclosing the name of the external consultant.

Table 7. Disclosure of external party's name and independence

External evaluator - Disclosure of name/Independence	IT		UK	
	No of cases	% out of 18	No of cases	% out of 14
Disclosure of name	14	78%	14	100%
Disclosure of external party status	12	67%	11	78%

All UK companies are compliant with the UK Corporate Governance requirements for disclosure of the name of the external evaluator. There are also three UK companies that did not conduct an external evaluation in 2013, but they disclosed the name of the external party engaged in the previous years. In 2013, fourteen Italian companies out of eighteen declared the name of the external facilitator. We expect to reach higher percentages in 2014 also in Italy following the requirements of the recently amended Italian Corporate Governance Code, which states: "Where the Board of Directors avails of consultants for such a self-assessment, the Corporate Governance Report shall provide information on their identity" and not only about the other services performed by such consultants, as in the previous edition.

In Italy five consultant firms (some non-specialized in corporate governance services) assisted fourteen companies. In the UK, nine consultant firms (most, if not all of them specialized in corporate governance services) assisted fourteen companies. In Italy, the first consultant in terms of clients assisted six companies and the second consultant assisted four firms. In the UK, six consultants had two clients each and the others only one. It is possible to conclude that the Italian market is more concentrated and with a limited number of specialized consultants compared to the UK market.

Both Italian and UK companies are quite transparent about the external party status. In fact, almost 70% of the companies in both countries disclosed the relationship between the issuer (or its subsidiaries) and the external party. Despite the fact that both Italian and UK Corporate Governance

Codes require explanations about independence status, companies that did not provide any disclosure did not even explain reasons for not complying with the code in this regard.

Six Italian companies and eight UK companies stated they did not have any other connection with the consultant, whereas six Italian companies and two UK companies provided disclosure about the other businesses of the external evaluator with the group. Among companies stating the existence of other relationships with the external party, some of them simply stated they had one without providing any further details. Others were more specific. Since most external evaluators are specialized in human resources and/or in corporate governance, the most frequent services are executive search and assessment services, succession planning consultancy, corporate governance mechanisms and organization consultancy and recruitment of non-executive directors. Two Italian companies used the services of differently specialized consultants and the business with the companies and their subsidiaries were more differentiated.

One Italian company stated it had chosen a firm specialized in corporate governance because they believe such a company could deliver a better result.

4.4. Subjects Of Evaluation

All Italian and UK firms assessed the board as a whole entity and the performance of its committees (Table 8).

Table 8. Subjects of evaluation

Subjects of evaluation	IT		UK	
	No of cases	% out of 34	No of cases	% out of 40
Whole Board	34	100%	40	100%
Committees	34	100%	40	100%
Individual directors	2	6%	30	75%
Chairman	-	-	27	68%
Executives	-	-	9	23%
No disclosure	-	-	-	-

As regards the evaluation of individual directors and of the Chairman, Italy is rather different compared

to the UK. For Italian companies the fact that the Corporate Governance Code does not require neither

the assessment of directors as individuals nor the assessment of the Chairman must be taken into consideration.

In fact, only two Italian companies assessed the directors as individuals and none of them assessed the Chairman. One of the two Italian companies declared that *“The analysis focused on the most material aspects relating to the Board of Directors as a collective body, individual Directors and their performance and the Committees”*. This would sound like directors had been evaluated as individuals. However, when this entity disclosed the evaluation process nothing was reported relating to this issue. In disclosing the outcome, there is only a generic reference to the contribution of each director.

One Italian company stated that due to the upcoming expiration of the Board’s term of office, the Nomination Committee decided not to conduct an individual director peer review as it had done in the past.

The UK approach is completely different, consistent with the UK Corporate Governance Code: 75% of companies assessed the individual contribution of each director and 67% assessed the Chairman’s performance. The evaluation of the directors as individuals is sometimes a necessary condition for the further re-election.

For the further re-election, the Italian Corporate Governance Code does not require an assessment of directors as individuals. Results of board evaluation have to be taken into account only when boards report their view to shareholders on the professional

profiles deemed appropriate for the composition of the Board of Directors, prior to its nomination.

The assessment of the Chairman is conducted by either the Lead Independent Director or by the Deputy Chairman and usually involves non-executive directors.

None of the Italian boards evaluated executive directors, while in UK around 25% of the boards assessed the executive directors. This does not mean that Italian executive directors are not evaluated. Their performance is certainly assessed as part of the annual wide performance evaluation of all staff, but their results are not expressly examined by the board. The Remuneration and/or Nomination Committee is normally involved in this activity.

4.5. Areas of Evaluation

The fundamental objective of a board evaluation is to assess all the processes of the board and its functioning, the relationships between the board and its committees, the adequacy of its composition, etc. This should be the minimum goal, looking retrospectively. However, more often companies have begun to take advantage of this practice including other areas of evaluation such as strategy and risk, relationship with shareholders and so on: they look prospectively, trying to understand how to improve effectiveness. This trend is remarkable especially for UK companies, as shown in Table 9.

Table 9. Areas of evaluation

Areas of evaluation	IT		UK	
	No of cases	% out of 34	No of cases	% out of 40
Only board processes and structure	17	53%	4	10%
More - Strategy, risk and control	12	35%	33	83%
No disclosure	4	12%	3	8%
Total	34	100%	40	100%

Focusing the attention on board processes and structure, the main items considered by the companies are as follows:

- role and responsibility of the board;
- adequacy of its composition, both in terms of professional skills/experience and balance of independent and non-independent directors;
- quality, organization and conduct of board meetings;
- quality and promptness of the documentation in preparation for the meetings;
- quality of the debate;
- quality of the relationship with management and information provided by them;
- composition, role, responsibilities of board committees and their relationship with the board;
- adequacy of the organizational structures that support the work of the board of directors and of its committees.

For a newly appointed board, one of the issues considered is the induction of the new members.

Moving to the other issues, Italian companies devoted their attention to risk and risk management, control activities, strategy and approach to gender diversity (Italian law about gender representation in the board became effective in 2012). One Italian board also analyzed the crisis management system

and two boards analyzed the compensation system and the paid-mix of the management.

UK companies face not only strategy, strategy process and risk management, but also the following:

- succession planning;
- executive remuneration;
- diversity;
- relationship with shareholders;
- project management and investments;
- culture and behavior.

According to the disclosure provided, UK companies seem to have a forward-looking approach, rather than simply a follow-up approach. Not all the UK firms showed the same involvement, but the awareness of the need to focus on the future and not only on the past performance of the board was more widespread than for Italian companies. If the self-evaluation of the board is viewed and conducted in this sense, it could be an important support in the next few years to build skills and competencies and to face threats and opportunities arising from the market.

Based on that, it is normal that succession planning (both for executive and non-executive directors) is a very sensitive topic for UK companies. Seventeen companies out of forty introduced this item into self-evaluation; five Italian companies

alluded to succession plans, sometimes simply to say that they were not present or not deemed necessary. The approach to succession planning is generally disclosed separately from the board evaluation exercise.

The fact that succession planning in general and crisis management in particular are controversial issues is proved by the debate in some boards and by the various stances on it. However, irrespective of having introduced or not succession planning in the company, it is important that companies give increasing consideration to this topic, thoroughly discussing it at board level.

The different approach is also confirmed when companies introduce the topic of diversity. In Italy, it is mainly a matter of gender diversity, whereas in the UK it is a matter of diversity seen from various

perspectives: international diversity, race diversity, age diversity and skills diversity.

Since generally UK companies do not have controlling shareholders, they may give more consideration to institutional shareholders comparing to Italian firms. However, Italian companies' boards seems to pay more attention to diversity when companies have relevant shareholders that are foreign funds, because of the different approach of these funds compared to that of some national investors.

4.6. Methodology For Conducting The Evaluation

Board evaluations could be conducted in several ways: through questionnaires, interviews, analysis of the minutes and other informal ways (Table 10).

Table 10. Methodology used for conducting the evaluation

Methodology	IT		UK	
	No of cases	% out of 34	No of cases	% out of 40
Questionnaires	14	41%	3	8%
Interviews	2	6%	17	43%
Questionnaires & Interviews	9	26%	13	33%
Other	-	-	2	5%
No disclosure	9	26%	5	13%
Total	34	100%	40	100%

Among Italian companies questionnaires are the most widespread way of collecting information: 42% of the firms only used questionnaires, whereas this percentage fell to 8% in the UK. The first reason for this difference is due to the greater use of an external evaluator in the UK. In fact, when an external facilitator assists a UK company, questionnaires are never solely used. In Italy it is similar, but two Italian companies that conducted self-assessment with the assistance of a third-party stated that solely questionnaires had been used. In these cases the role of the external evaluator is limited: it intervenes in preparing the questionnaires and in assessing the results, but it never meets the directors. The second reason lies in the subject of the evaluation: 75% of UK companies assessed directors as individuals and it is rather difficult to do so using a questionnaire, mainly based upon closed questions. Lastly, it is easier to have a forward-looking approach using methodologies different from questionnaires. Interviews give more freedom to open discussions and interpretations and allow directors to face a wide range of issues.

Technology has entered board evaluation: two companies used online questionnaires instead of hard copy questionnaires.

Before having interviews, external evaluators quite often analyzed company documents such as board and committee minutes or had preliminary discussions with the Chairman or the Lead

Independent Director to depict board dynamics in the most accurate way. Two UK companies stated the external evaluator had joined the board and committee meetings in order to have a first-hand observation of the discussions.

Three firms disclosed non-formal ways of collecting information, such as 'free-style' questionnaires to capture directors' "top of mind thoughts and feelings" and candid board discussion and non-executive directors' dinners.

The percentage of Italian companies that did not disclose the methodology is 26%. In the UK, only 13% of companies did not disclose the methodology used for conducting the evaluation.

4.7. Outcome Of The Evaluation

The findings and recommendations from a board evaluation should be analyzed and discussed by the boards. After identifying both areas of excellence and areas for improvement, boards should approve an action plan to enhance areas of excellence and to remove weaknesses, identifying also who has the responsibility of putting the reforms in place. Eventually, it would be worthwhile to follow-up the action plan implementation.

Disclosure regarding the outcome of the evaluation is not always sufficient and useful.

Table 11. Outcome of the evaluation

Outcome of the evaluation	IT		UK	
	No of cases	% out of 34	No of cases	% out of 40
Both areas of excellence and areas for improvement	18	53%	31	78%
Either areas of excellence or areas for improvement	7	21%	3	8%
No disclosure	9	26%	6	15%
Total	34	100%	40	100%

More than half of Italian firms disclosed both areas of excellence and areas for improvement; in

the UK it reached 78%. The quality of disclosure varies. Some companies only gave brief descriptions

of the strong and weak areas, even though in some cases, they retained a third party to perform the evaluation, which should have resulted in an extensive outcome. In other cases, they dedicated more space to depicting the positive and negative outcomes of board evaluation.

More than 20% of Italian analyzed companies disclosed either areas of excellence or areas for improvement, even if most of them disclosed only areas of excellence. In Italy, the number of companies not providing any disclosure as to outcomes is still too high (26%).

Forasmuch as Italian companies devoted their attention to board structure and procedures, the following were topics considered the most delicate, sometimes viewed as strong points, some as weak points:

- board documentation: only a clear and complete documentation delivered in advance could allow directors to make conscious decisions. Sometimes, documentation was perceived as being too large and the need for executive-summary emerged;

- board induction: induction sessions are essential in order to allow directors to have a thorough company acknowledgement. In some cases, they were perceived as an area for improvement. In many cases, the strengthening and acceleration of new directors' induction were strongly recommended for the new board;

- interaction between non-executive directors and top management: non-executive directors should have continuous relationships not only with other executive directors, but also with top managers, in order to be constantly updated. For some companies, this relationship is already considered appropriate, whereas other firms identified the need for a closer relationship.

Regarding board structure and processes, the UK companies disclosed a great attention to the role of committees, the interaction between committees and board, the chairman's role and the board appointment process. Moreover, similar to the outcome at Italian companies, documentations, inductions and relationships between non-executive directors and top management are sensitive issues.

The financial crisis has forced many boards to pay more attention to business issues. In particular, an increasing number of companies disclosed a demand for an in-depth analysis of market evolution, key business issues, strategy and other aspects. These issues were considered relevant by both Italian and UK companies, although more UK companies provide more details, confirming the "forward-looking" approach.

In particular, directors asked that sufficient time to discuss and oversee strategy be allocated to board agenda. Thus, dedicated meetings are viewed as a valuable way to thoroughly discuss the strategic plan.

In many companies (eighteen out of eighty) directors asked for on-site visits that could allow non-executive directors to improve the company's knowledge and enhance relationships with top management.

Meanwhile, also "non-formal" ways of discussion and debate such as dinners and pre-board meetings are considered welcomed, as opportunities for free exchange of opinions. To extent this range of opinions, two boards declared their intention to invite external speakers.

Italian companies devoted more space to disclosing how risk identification and the management system is perceived by directors, approach largely due to the 2011 amendments to Italian Corporate Governance Code which specifically required listed companies to introduce a risk management system.

UK boards outlined the needs for succession plans and paid more attention to remuneration policy.

Boards of companies belonging to specific industries began to show interest in Corporate Social Responsibility and sustainability.

4.8. Follow-up

Disclosure of follow-up confirms the different approach among Italian companies and UK firms (Table 12).

Table 12. Disclosure of follow-up

Follow-up	IT		UK	
	No of cases	% out of 34	No of cases	% out of 40
Description of follow-up	5	15%	22	55%
No disclosure	29	85%	18	45%
Total	34	100%	40	100%

Five Italian companies disclosed the previous year action plan implementation process, generally in a generic narrative way.

The UK companies disclosing follow-ups were more likely to provide more details about both the action planned the previous year, progress and results achieved. Considering the three-year cycle for external evaluation, it is also quite common to present the board action plan approved when a third party is engaged and the achievements against the action plan during the years of internal evaluation. Many companies disclosed the outcome and follow-up using charts: understandability is surely reinforced with such approach.

5. CONCLUSIONS

Our research has defined the state of art of the board evaluation process in Italy and in the UK.

The results showed that differences in requirements, in culture and in corporate governance models have influenced how the board evaluation process is perceived and conducted and the level of disclosure of the results. This is also revealed by reading the 2013 Corporate Governance Reports of companies based in various jurisdictions. However, comparison of Italian and UK companies should also take into account the differences in company size, forasmuch as Italian companies are smaller than UK companies. Moreover, in Italy there

are companies approaching board evaluation in a pro-active way, while on the other hand in the UK there are companies that do not provide sufficient disclosure.

About the conducting of board evaluation, most Italian companies (85%) conducted a board evaluation for the 2013 financial year. All UK companies say of having always conducted an annual evaluation in the past three years.

In nearly every case (82% of cases in Italy and 100% in the UK), the evaluation process was disclosed, even if the quality of the disclosure was not always the same. Italian companies did not provide specific information about a three-year cycle approach, whilst several UK companies clearly described the evaluation process throughout a three-year (or two-year) board mandate. However, due to the recently amended Italian Corporate Code, we expect to find better disclosure in this regard in the 2014 Corporate Governance Reports.

Concerning the party conducting the evaluation, all UK companies made use of an external consultant in the three-year cycle mandate. About 50% of the Italian companies engaged an external facilitator.

The Lead Independent Director and Chairman's Nomination/Governance Committee conducted the evaluation in Italy. At UK companies conducting the board evaluation internally, the Chairman of Board of Directors was usually the coordinator.

The different approach between Italy on the one hand and the UK on the other hand is huge if we consider the subjects of evaluation, mainly due to different requirements of Corporate Governance Codes. Only two Italian companies evaluated directors as individuals and none evaluated the chairman and executives whereas 75% of UK companies assesses directors as individuals and 68% of the cases the board's chairman. In order to have a "forward-looking approach", UK companies' behavior is valuable in the case of re-election and when implementing executive director succession plans.

About areas of evaluation, around 50% of Italian companies assessed only board processes and structure, whereas many UK companies included other issues in self-assessment (more than 80% in 2013).

Italian companies evaluating also other issues were more focused on risk and risk management, control activities, strategy and gender diversity. The 'forward-looking' approach of UK companies is revealed through the issues evaluated: in addition to strategy, topics such as succession planning, executive remuneration, diversity (not only gender diversity) and relationship with shareholders were areas subjected to assessment.

Also the methodology is different. Among Italian companies questionnaires were the most widespread way of collecting information. In the UK, the more common use of an external consultant led to a more extensive use of interviews and other methodologies to allow directors to express opinions and suggestions more freely.

More than half of Italian firms disclosed both areas of excellence and areas for improvement and in the UK it reached 78%. The quality of disclosure was not always the same. Some companies only gave brief descriptions of the strong and weak areas,

although in some cases they retained a third party. In other cases, they dedicated more space to depicting the positive and negative outcomes of board evaluation.

Regarding board structure and processes, the most sensitive issues were: in Italy, documentation, induction and interaction between non-executive directors and top management; in the UK companies, committees' role, committees and board interaction, chairman's role and board appointment process along with documentation, induction and interaction between non-executive directors and top management.

In some cases, those issues were considered strong points whereas in other cases they were perceived as weak points.

Regarding the evaluation of aspects other than structure and processes, the most widespread topics were: in Italy, risk identification and management system and strategy; in the UK companies, strategy and succession planning.

Even though the issues are about the same in the two countries, reading the UK Corporate Governance Reports enables a better understanding not only of the results of the evaluation, but also of the actions that the board intends to put in place to remove the weak areas.

Finally, 15% of Italian companies disclosed follow-up actions relative to the outcome of the board evaluation. UK firms disclosing follow-up are 55%. The UK companies were more likely to provide more details whereas Italian companies disclosed the follow-up in a generic narrative way.

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