

BOARD EVALUATION PROCESS IN ITALY: HOW FAR IS IT FROM THE UK STANDARD?

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Abstract

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Both the UK and the Italian Corporate Governance Codes call for boards to undertake an annual evaluation of their own performance and that of their committees. The study analyses the board review process conducted by the 25 most capitalized Italian listed companies at June 30th, 2016 and the top 25 companies included in the FTSE 100 on the same date in terms of objectives, parties involved, methodological approaches, suggestions to shareholders, board nomination and election. The Italian trends on board evaluation are compared to UK trends, as the UK is particularly advanced with regard to best practices on board self-assessment. Our analysis shows that in 2016 the most capitalized Italian companies seem to have improved their self-assessment compared to the past, in particular with regard to the disclosure of the process, the involvement of independent external consultants and the number of evaluated subjects. However, some aspects require improvement in the near future.

Keywords: Board Review, Self-Assessment, Board of Directors, Corporate Governance Code, Board Committees

1. INTRODUCTION

Board self-assessment is an organized process by which the Board of Directors regularly examines its composition and functioning from the perspectives of compliance with rules and performance.

Increasingly, board self-evaluation has become a vital governance tool. Self-assessment in fact stimulates boards to reflect on their responsibilities and helps them focus on integral aspects of their work, thus providing an important yardstick by which they can prioritize their future activities. Self-evaluation can also serve a consensus-building function by defining the overall standards of performance for the board.

The origins of board evaluation can be found in the United States in 1994, when the National Association of Corporate Directors (NACD) published the report "Blue Ribbon Commission on Performance Evaluation of CEOs, Boards and Directors". The following year the Toronto Stock Exchange Committee on Corporate Governance in Canada and the Vienot Committee in France also issued guidelines on board self-assessment. Specifically, the Toronto Stock Exchange (1995), in the report "Where were the directors? Guidelines for

improved corporate governance", suggested that "every board of directors should implement a process to be carried out by the nominating committee or other appropriate committee for assessing the effectiveness of the board as a whole, the committees of the board and the contribution of individual directors". In addition, the Vienot Committee published guidelines aiming to strengthen investor confidence. These guidelines hinted that "each board should periodically review its membership, organization and operations, and keep shareholders informed of conclusions and action taken".

In the 2000s, the practice of adoption of board evaluation was also suggested in Germany (German Panel on Corporate Governance, 2000), Australia (Australian Stock Exchange Corporate Governance Council, 2003) and England (Financial Reporting Council, 2003). The growing interest in the topic prompted the European Commission in 2005 to recommend for the first time that Boards of Directors of European listed firms evaluate their performance annually, specifying that this practice includes "assessing their membership, organization and operation as a group, the competence and effectiveness of each board member and of the board committees, and how well the board performed

against any performance objectives set". In 2011, the European Commission reaffirmed this orientation in the Green Paper "EU corporate governance framework". It suggested that evaluation of the board should be facilitated at least every three years by an external consultant, who could improve board self-assessment by bringing an objective perspective and sharing best practices from other companies. Evidence gathered by the Commission shows that it is particularly at a time of crisis, or of breakdown in communication between board members, that an external reviewer really adds value to the evaluation. This position is justified by the fact that board self-assessment is a complex, articulate and delicate exercise. In this context, it is important that it be managed by a specialized and experienced consultant, able to effectively develop the process taking into due consideration sensitive data, soft information and characteristics of individual directors.

Nowadays, most European Corporate Governance Codes suggest that listed firms' Boards of Directors evaluate their performance at least annually. Companies are not expressly mandated to comply with this recommended best practice, but they are required to disclose whether they comply with recommendations that include board self-assessment, and if not, why not. This approach, defined "comply-or-explain", exerts certainly pressure on companies to comply.

In this context, the UK Corporate Governance Code calls for boards to undertake a formal and rigorous annual evaluation of their own performance and that of their committees and individual directors. Evaluation of the board should consider "the balance of skills, experience, independence and knowledge of the company on the board, its diversity, including gender, how the board works together as a unit, and other factors relevant to its effectiveness". The Chairmen of the companies listed on the London Stock Exchange are required to "act on the results of the performance evaluation by recognizing the strengths and addressing the weaknesses of the board and, where appropriate, proposing new members be appointed to the board or seeking the resignation of directors". Moreover, individual evaluation should aim to show whether each director continues to contribute effectively and demonstrate commitment to the role. The non-executive directors, led by the senior independent director, should be responsible for performance evaluation of the Chairman. Companies listed on the London Stock Exchange are also required to explain in their annual report whether and how they have complied with the provisions of the Corporate Governance Code, and if not, why not. Besides, the UK Corporate Governance Code suggests that evaluation of the board of FTSE 350 companies should be facilitated at least every three years by an external consultant, who should be identified in the annual report, specifying whether the consultant has any other connection with the company.

The Italian Corporate Governance Code too requires board of directors to "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". The code suggests that evaluation of the board of Italian listed companies could be related to the three-year mandate of the Board of Directors, with differentiated yearly focus during the three-year period. Like the UK Corporate Governance Code, the Italian Code also requires that the corporate governance report provides information on the identity and independence of consultants if these are involved in the process.

The paper is organized as follows. Section 2 provides a literature review on board evaluation. In Section 3, the Italian trends on board self-assessment are analyzed, particularly in comparison with UK trends, as these are particularly advanced with regard to best practices on board review. On this point, we present a comparison between the 25 most capitalized Italian listed companies at June 30th, 2016, and the top 25 companies included in the FTSE 100 on the same date. In conclusion, some considerations on the expected developments are presented.

2. LITERATURE REVIEW

In the last decade, regulators and institutional investors have increasingly endorsed board evaluation as a prerequisite for good corporate governance. A well-structured board review process is in fact required by the European Commission (2005, 2011), and by many national Corporate Governance Codes for listed firms in different countries, e.g. Australia, Canada, Germany, England, Italy and United States.

Board evaluation is a useful tool to assess boards' roles (Van den Berghe and Levrau, 2004; Kiel and Nicholson, 2005; Carretta et al., 2010; Cosma et al., forthcoming). Self-assessment stimulates in fact boards to reflect not only on their duties and responsibilities, but also on their strengths and weaknesses.

Academic literature does not identify any ideal standard to evaluate corporate boards, as there is no "one size fits all" approach. Neither is it possible to classify what constitutes a good board of directors in general, or what represents correct governance attitudes and proper director behaviour (Carretta et al., 2010). Existing literature focuses on examining the main issues related to the board review process: the reasons for reviewing the performance of the board, the evaluation areas, the parties involved, and the different methodological approaches.

Although most European Corporate Governance Codes encourage listed company boards to conduct self-assessment periodically, there is some criticism on the usefulness of this practice. On the one hand, some authors describe the potential benefits that board review enables both the group and individual directors to pursue (Schnase, 2004; Kiel and Nicholson, 2005; Long, 2006; Moodie, 2008). These benefits consist of improvements in different fields, such as leadership skills, definition of roles, team-working development, transparency, decision-making process, legitimacy and communication, especially with shareholders and institutional investors (Moodie, 2008). On the other hand, some authors argue that board self-assessment is time-consuming for directors (especially for the executives) and can reduce group collegiality (Schnase, 2004). Moreover, Leblanc (2007) notes that

the process is often carried out for solely formal reasons that is exclusively in order to be compliant with the Corporate Governance Code requirements on board evaluation. However, the aims of board review should be very different from mere bureaucratic exercises. On this point, Kiel and Nicholson (2005) identify two main objectives of self-assessment for boards: improvements in corporate leadership (for example, in order to provide directors suggestions for the growth of their professional skills and their role within the group) and resolution of problems in different areas, such as corporate governance effectiveness or boardroom dynamics. The definition of the goals represents the first stage of the board evaluation process. This stage is very important, as it affects the achievement of the following phases, the amount of allocated resources, the collaboration of parties involved and the usefulness of the results.

A further important aspect concerns the areas of evaluation. The content of board self-assessment is the main focus of past articles on this topic (Conger et al., 1998; Ingley and Van Der Walt, 2002; Kiel and Nicholson, 2005; Minichilli et al., 2007). On this point, Minichilli et al. (2007) identify four important areas to define effective boards of directors (Huse, 2005): (i) board tasks, (ii) board membership, (iii) board culture and processes, and (iv) board leadership and structure. The evaluation of board tasks aims to investigate whether the board is doing what it is supposed to do (Epstein and Roy, 2004) and covers forms of board control, advisory mentoring and networking tasks (Huse, 2007). The element of board membership aims to evaluate directors' attributes and their selection criteria (Siekkinen, 2017). In this context, board review typically assesses the following items (Minichilli et al, 2007; Moodie, 2008): personal characteristics and competences, professional backgrounds, independence, and representation of important stakeholder groups. The evaluation of board culture and processes focuses on very intangible aspects, mainly related to decision-making procedures (e.g. the number of meetings, their duration, attendance, reporting), trust among directors, and board interactions (Minichilli et al, 2007; Carretta et al., 2010; Stevenson and Radin, 2015; Heemskerk et al., 2017). Finally, the element of board leadership and structure aims to investigate organizational issues, such as board diversity (in terms of age, gender and tenure), board size, the presence and the functioning of board committees, the ability of the CEO to communicate with directors and of the chairperson to stimulate team-working and a constructive decision-making culture in the boardroom (Leblanc and Gillies, 2005; Huse, 2007; Ntim, 2015).

Existing literature also studies the people to whom the self-assessment process is extended. On this point, three different groups can be identified (Kiel and Nicholson, 2005): the board of directors and its committees as a whole, individual directors, and other corporate governance key personnel. The self-evaluation of the board and its committees is widespread among listed companies, both in Italy and elsewhere in Europe, as suggested by most Corporate Governance Codes. It implies a judgment by individual directors on the board as a whole, in order to investigate the awareness of the role and responsibilities of the group. The evaluation of

board committees is also widespread in Europe today. It aims to analyse their composition, their functioning and their ability to effectively support the board in their specific competence. The assessment of individual directors instead implies that each board member expresses a judgment on his/her colleagues (peer evaluation) or, sometimes, on himself/herself (self-evaluation). Self-evaluation aims to stimulate each director to a personal reflection on the contribution that he/she provides to the board as a whole. However, this reflection is often not adequately objective, as board members, like many other people, tend to have a biased image of themselves (Kiel and Nicholson, 2005). On the contrary, peer evaluation requires that each director identifies other colleagues' weaknesses and strengths. Compared to self-evaluation it makes it possible to better recognize individual contribution to board activities, and identify possible skills in the group, which are under-utilized or lacking. Board member assessment does not necessarily have to be extended to all directors. It may indeed be limited, if appropriate, to key figures, such as the Chairman, the Chief Executive Officer and, sometimes, the lead independent director. The specific evaluation of the Chairman appears to be particularly important, as he/she is the coordinator of board activity and the corporate governance guarantor (Neubauer, 1997; Kiel and Nicholson, 2005; Minichilli et al., 2007). The European Commission (2011) in fact states that board review should cover the role of the Chairman, among other issues. The third group includes the key corporate governance actors other than directors, such as the corporate secretary (Kiel and Nicholson, 2005), whose duties often reach high levels of professionalism and complexity both in terms of relationships and compliance.

The existing literature also investigates the party designated to conduct board review. Some studies suggest that the main difference is between internal and external self-assessment (Kiel and Nicholson, 2005; Long, 2006; Minichilli et al., 2007, Carretta et al., 2010). Each approach has its strengths and weaknesses. The internal review implies that self-assessment is conducted by internal subjects, generally identified as the Chairman (Kiel and Nicholson, 2005; Carretta et al., 2010), a non-executive director, such as the lead independent director (Kiel and Nicholson, 2005; Carretta et al., 2010), or an internal committee, such as the governance committee or the appointments committee (Kiel and Nicholson, 2005; Carretta et al., 2010). On the one hand, the internal process may help reluctant directors to conduct board self-assessment, especially at an early stage. It has the advantage of ensuring confidentiality and allowing the application of known internal standards, thus stimulating even the most sceptical managers to be involved (Berenbeim, 1994). On the other hand, the adoption of an in-house approach throughout a board lifecycle could affect the spontaneity of directors in revealing board weaknesses (Conger et al., 1998; Kiel and Nicholson, 2005; Carretta et al., 2010). For this reason, international best practices and some Corporate Governance Codes, such as the UK Corporate Governance Code, suggest that an external evaluation is conducted at least every three years within the board cycle. An external consultant is expected to give assessment independence and

transparency, increase the quality of the analysis through his/her experience, and stimulate spontaneity of directors and their involvement in the process; (Kiel and Nicholson, 2005; Carretta et al., 2010).

Finally, existing literature studies the various methods used in board self-assessment. There are qualitative and quantitative techniques (Kiel and Nicholson, 2005; Carretta et al., 2010). Qualitative techniques include interviews, attending board and committee meetings and analysis of the minutes, while quantitative techniques include questionnaires and surveys in their various forms.

The interview makes it possible to collect complex information, such as directors' perceptions and ideas, which they can express in their own terms. This technique can be applied using groups (focus group) or individually (individual interview). In a focus group, the facilitator, who is generally the Chairman, encourages open discussion among board members (Punch, 1998). The technique is not widely used today, as its perceived benefits appear to be lower than its disadvantages. On the one hand, focus groups allow directors to discuss important topics of interest openly (Minichilli et al., 2007). On the other hand, however, they may also inhibit candid disclosure (Kiel and Nicholson, 2005), as *"the risk is that it becomes a ceremony where concerns to preserve the harmony within the group prevail over a more constructive and critical approach"* (Minichilli et al., 2007). Individual interview however is more widespread. It can be conducted in a structured form, i.e. following a rigid list of pre-defined questions, or alternatively in a non-structured or semi-structured form, i.e. starting from a list of questions identified ex ante, which can be asked and supplemented freely. Face to face interview ensures confidentiality, especially for critical opinions that are unlikely to hear in group context, and thus stimulates candid disclosure by directors. For this reason, individual interview appears to be very useful to develop complex and private issues (Conger et al., 2001; Kiel and Nicholson, 2005), although it cannot guarantee the honesty of the respondents' answers and is inevitably affected by possible bias arising from directors' specific points of view. The effectiveness of this technique depends on the experience and quality of the interviewer (whether he/she is internal or external), on his/her ability to listen to each director and make feel him/her understood, and on his/her capacity to structure appropriate, clear and unambiguous questions that stimulate precise answers. For these reasons, face to face interview is very often used when self-assessment is conducted by an external consultant.

Another technique, especially widespread in the UK when self-assessment is conducted by an external consultant, is observation of board meetings. In this case, the evaluator does not directly stimulate or influence directors in any way, but simply observes them, taking note of their behavior and speeches during meetings. The focus is thus on boardroom processes as they occur rather than their description given by single board members. The methodology is thus particularly useful to investigate group dynamics, relationships between directors, the exercise of leadership by the CEO, the authority and the ability of the Chairman to

conduct board meetings and debate among directors. Along with advantages, observation of board meetings also has disadvantages; since data are collected as events occur, *"rather than what a director thought occurred, it is free from respondent bias, but is still subject to observer bias"* (Kiel and Nicholson, 2005).

A further qualitative and widespread method, often used in combination with techniques described above, is document analysis. Both contemporary and historical documents, such as board minutes, pre-meeting papers, internal manuals, and governance charters, can be a rich source of information (Punch, 1998). Reviewing this documentation allows the evaluator to investigate board internal governance, and compare the results with those obtained by other techniques (Kiel and Nicholson, 2005).

Qualitative methodologies make it possible to obtain a large amount of information, especially soft information, but they do not allow for a precise measurement of results or objective comparison between them. The questionnaire, however, as a quantitative technique, provides numerical evidence of directors' answers, which can be interpreted in a comparative perspective. According to how questions are worded, quantitative responses often include one of the following categories: (i) Binary (for example, yes/no) or tertiary scales (for example, yes/no/partially); (ii) Likert scales, generally 3-point (for example, disagree/no opinion/agree) or 5-point (for example, strongly disagree/disagree/no opinion/agree/strongly agree); (iii) Semantic differential scales (for example, adequate/non adequate, agree/disagree); (iv) Numerical scales, generally ranging from 1 to 3 or 1 to 5; and (v) Ranking scales, typically constructed on ordinal qualitative scales (for example, from "A" to "E"). The questionnaire can be administered in different ways: face to face, by phone, email or fax. If the board review is conducted by an external consultant, the survey is usually completed by each director in the presence of the consultant. The email (or fax) questionnaire tends to be most widely used in internal self-assessment. An effective questionnaire should clarify in the introduction the aim of the survey and contain clear and simple questions, in order to avoid doubts in interpretation (Kiel and Nicholson, 2005).

Our paper aims to analyze trends in board evaluation in Italy. There is a focus on comparison with the UK, as that country is particularly advanced with regard to best practices on board self-assessment.

3. RESEARCH METHODOLOGY

Our analysis compares board evaluation processes of the 25 most capitalized Italian listed companies at June 30th, 2016, and the top 25 companies included in the FTSE 100 on the same date. Data were extracted by public documents. Specifically, Italian companies summarize board review results in the corporate governance report, while UK companies summarize them in the Annual Report.

The following areas are taken into account in the analysis: (i) board evaluation process, (ii) parties involved, (iii) suggestions to shareholders, board nomination and election.

The first area investigates the board evaluation process in terms of:

- a) conduction;
- b) disclosure;
- c) areas of evaluation, subdivided two broad categories: (1) board structure, processes and operations; and (2) board strategy, risk and control.
- d) outcomes;
- e) follow up.

The second area studies parties involved in board review, identified as follows:

- a) groups to whom self-assessment is extended: the board of directors and its committees as a whole, individual directors and other corporate governance key personnel;
- b) parties who is asked about board evaluation;
- c) party designated to conduct evaluation: the chairman, the lead independent director, the nomination/governance committee, the company

secretary/legal council, the external consultant and the chief governance officer (CGO).

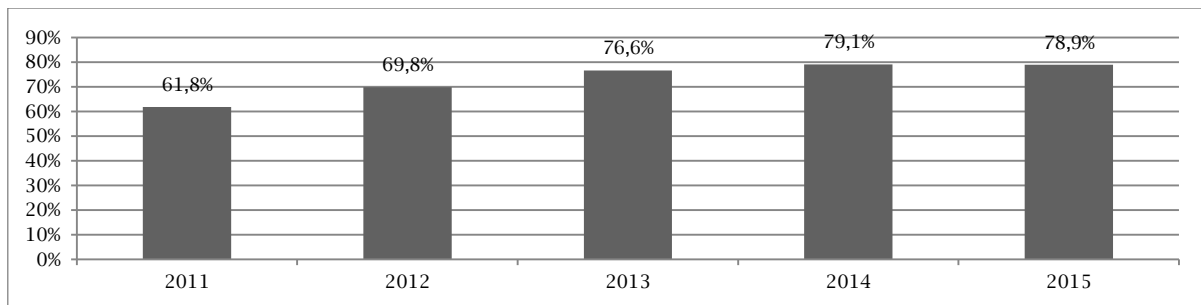
Finally, the third area investigates board election and the related role of the nomination committee.

4. RESULTS

4.1. Board evaluation process

Despite the persistence of some scepticism about the convenience of conducting board review, it turns out to be a fairly established practice among Italian listed companies. The third report on the compliance with the Italian corporate governance code (Corporate Governance Committee, 2015) gives a picture that is basically stable over time. Specifically, in 2015, 180 companies (i.e. 79% of the aggregate) disclosed that they had performed board self-evaluation for the 2014 financial year (Figure 1).

Figure 1. Italian listed companies that performed board evaluation



Source: Assonime-Emittenti Titoli, Figure 4

Focusing on the 25 most capitalized Italian listed companies at June 30th, 2016, compared to the top 25 companies included in the FTSE 100 on the same date, board review turns out to be a very

widespread practice. In 2016, all UK companies and most Italian companies conducted an annual board valuation for the 2015 financial year, as shown in Table 1.

Table 1. Conducting board evaluation

Board evaluation	Italy				UK			
	No. of cases	2014 (%)	No. of cases	2015 (%)	No. of cases	2014 (%)	No. of cases	2015 (%)
Conducted board evaluation	23	92%	23	92%	25	100%	25	100%
Did not conduct board evaluation	1	4%	1	4%	0	0%	0	0%
No disclosure	1	4%	1	4%	0	0%	0	0%
Total	25	100%	25	100%	25	100%	25	100%

Compared to 2014, in 2015 the number of Italian companies that conducted board self-assessment remained constant at 23. In the other two Italian companies in the sample, one did not conduct a board evaluation in 2015, showing clear reluctance to engage in the process, as in previous years. The other company did not make any disclosure about board of directors' self-assessment,

and in view of the 'comply or explain' nature of the national code of corporate governance can be defined as non-compliant.

Disclosure on board evaluation in 2015 was very good. The process was in fact disclosed by 100% of companies, compared to 87% and 88% of Italian and UK companies respectively in 2014, as shown in Table 2.

Table 2. Evaluation process disclosure

Evaluation process	Italy				UK			
	No. of cases	2014 (%)	No. of cases	2015 (%)	No. of cases	2014 (%)	No. of cases	2015 (%)
Disclosure of the process	20	87%	23	100%	22	88%	25	100%
No disclosure	3	13%	0	0%	3	12%	0	0%
Total	23	100%	23	100%	25	100%	25	100%

However, the quality of the disclosure varied. Specifically, in 2015 only 8% of UK companies clearly described the evaluation process throughout a board mandate (Table 3). However, in the same period 30% of Italian companies provided specific information about a three-year cycle approach: in 2014, about 48% of them addressed this issue. This is probably

because the 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*” was extremely recent. It was amended in July 2014, and, for this reason, was applied in 2015 Italian Reports for the first time.

Table 3. Three-year cycle approach

Three-year cycle approach	Italy				UK			
	No. of cases	2014 (%)	No. of cases	2015 (%)	No. of cases	2014 (%)	No. of cases	2015 (%)
Disclosure of the process	11	48%	7	30%	2	8%	2	8%
No disclosure	12	52%	16	70%	23	92%	23	92%
Total	23	100%	23	100%	25	100%	25	100%

A further important aspect concerns the areas of evaluation. There is no single solution. As suggested by Lorna A. Schnase (2004), the areas that a board evaluation should cover depend on “*the type of organization conducting the assessment, the industry it operates in, how large and complex it is, and a lot of other factors that make it difficult to develop a single model suitable for all. However, most companies have a number of issues in common, which can be identified at least in general terms*”. These issues might be categorized in different ways, and we subdivide them into two broad categories: (1) board structure, processes and operations; and (2) board strategy, risk and control.

The first category includes, among others, the following issues: definition and understanding of the

board’s role and responsibilities, adequate composition, relationship between the whole board and management, clear allocation of responsibilities between the board and executive management, quality of the debate and of the documentation sent in preparation for the meetings, functioning of committees, induction activities and adequacy of the organizational structures that support the work of the Board of Directors and its committees.

The second category includes other areas of evaluation, such as strategy, relationship between board and shareholders, risks and controls.

Comparing the Italian and the UK market some important differences emerge between the two countries, as shown in Table 4.

Table 4. Areas of evaluation

Areas of evaluation	Italy				UK			
	No. of cases	2014 (%)	No. of cases	2015 (%)	No. of cases	2014 (%)	No. of cases	2015 (%)
Only board structure, processes and operations	8	35%	10	43%	1	4%	1	4%
Includes strategy, risk and control	13	57%	10	43%	19	76%	20	80%
No disclosure	2	9%	3	13%	5	20%	4	16%
Total	23	100%	23	100%	25	100%	25	100%

The evaluation of both areas is widely carried out in the UK. However, compared to the previous year, the UK companies’ approach was approximately the same, while the Italian companies showed a slight decrease in the number of boards that included not only the analysis of board structure, processes and operations in their self-assessment. More specifically, 10 Italian firms in 2015 focused their attention on strategy, risk management and control activity. As in previous year, UK companies dealt with not only strategy and risk management, but also succession planning, executive remuneration, board diversity, relationship with shareholders, project management and investments, culture and behavior, as suggested by the Financial Reporting Council (2011).

It therefore appears that UK companies’ board evaluation follows a forward-looking approach, aiming to analyze board performance in terms of effectiveness and opportunities for improvement.

Italian firms, on the other hand, seem to prefer a compliance and backward-looking approach.

Best practices in board evaluation suggest focusing on both strengths and weaknesses identified by the assessment. More generally, boards should approve a program to enhance areas of excellence and to eliminate weaknesses, and identify parties responsible for implementing the reforms. It is also useful to follow implementation up. Every problem should be clearly identified, analyzed and discussed in order to solve it and plan follow-up and resolution actions. On this point, the European Commission (2011) suggests that “*to encourage openness, a degree of confidentiality should be maintained. So any evaluation statement to be disclosed should be limited to explaining the review process*”. This approach is consistent with the Italian Corporate Governance Code, which has chosen not to recommend the dissemination of board review results.

Table 5. Evaluation outcome

Evaluation outcome	Italy				UK			
	No. of cases	2014 (%)	No. of cases	2015 (%)	No. of cases	2014 (%)	No. of cases	2015 (%)
Areas of improvement and excellence	13	57%	8	35%	12	48%	17	68%
Only areas of excellence	6	26%	9	39%	1	4%	2	8%
Only areas of improvements	1	4%	1	4%	7	28%	3	12%
No disclosure	3	13%	5	22%	5	20%	3	12%
Total	23	100%	23	100%	25	100%	25	100%

As shown in Table 5, there is a significant difference in evaluation outcomes between Italian and UK companies. About 35% of Italian firms in 2015 disclosed both areas of excellence and areas for improvement, whereas 39% and 4% focused only on strengths and weaknesses, respectively. However, in the same period in the UK most companies (68% of the sample) concentrated on both strengths and weaknesses. Moreover, 12% and 8% of UK firms disclosed only weaknesses and strengths, respectively. This confirms that UK companies' board evaluation seems mainly oriented to a forward-looking approach, aiming to remove weaknesses.

The quality of evaluation outcome disclosure varies across companies. Overall, Italian companies summarize information, while UK firms often give great attention to positive and negative aspects of self-assessment.

As regards Italian companies, the following issues are considered the most important. Some are strengths and some are weaknesses:

- Board induction: an institutionalized and effective board induction and training process could maximize the director's contribution and thus improve board effectiveness, particularly where there is a high turnover of non-executive and independent board members. For this reason self-regulation on corporate governance encourages the development of structured induction programs, including directors' visits to individual businesses and meetings with senior management, both for new directors (which are tailored to specific individual requirements to facilitate their activities on board in the shortest possible time) and all other board members. In this context, 8 Italian companies described induction programs as a board strength, while 5 firms recommended improvement of such programs.

- Strategy: 6 Italian companies disclosed demand for an in-depth analysis of strategic issues, related to market evolution, key business

environment and other aspects. 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 of debating the strategic plan.

- Off-site: 2 Italian companies suggested organizing 'informal' forms of discussion and debate, such as off-site meetings, dinners and pre-board meetings, seen as opportunities for free exchange of opinions. One firm described meetings held at the Group's premises abroad as a board strength.

- Succession planning and crisis management: one Italian firm identified as area for improvement the need to refine existing plans. On this point, Criterion 5.C.2 of the Italian Corporate Governance Code recommends Board of Directors to evaluate whether to adopt a plan for the succession of executive directors and provide relative information in their corporate governance reports. Specifically, the Italian Code suggests companies evaluate the opportunity of adopting specific procedures for the succession of executive directors, clearly defining their scope, instruments and timing, providing both for an active engagement of the Board of Directors and for a clear allocation of tasks and duties, also with regard to the preliminary stage of the procedure.

In the UK, the main areas for improvement are identified as development of strategic issues (12 companies), induction (8 companies) and refining of existing succession plans (6 companies).

The follow-up emerging from a self-assessment can be as important as the assessment itself. Failure to follow up on a problem can be indeed as bad, if not worse, than failure to identify it, as the board could be liable for harm occurring during the time the problem continued or got worse because the board failed to take corrective action. Italy and UK have a different approach in the disclosure of follow-up, as shown in Table 6.

Table 6. Follow up

Follow up	Italy				UK			
	No. of cases	2014 (%)	No. of cases	2015 (%)	No. of cases	2014 (%)	No. of cases	2015 (%)
Description	6	26%	5	22%	19	76%	17	68%
No disclosure	17	74%	18	78%	6	24%	8	32%
Total	23	100%	23	100%	25	100%	25	100%

Only 5 Italian companies disclosed the implementation process following previous year's action plan. Such disclosure tends to be very brief, and mainly not very detailed.

About 68% of UK companies disclosed the

follow up process. Such disclosure was generally very detailed and was often presented using charts. Many UK companies summarized in a single table both the follow-up regarding the previous year's action plan and the current year outcomes.

4.2. Parties involved

An important aspect of board evaluation is the definition of people to whom the self-assessment process is extended. Three different groups can be identified in this field: the Board of Directors and its committees as a whole, individual directors and other corporate governance key personnel.

With regard to the definition of roles covered by the self-assessment process, the Italian Corporate Governance Code suggests focusing on the whole board and its committees. The UK code adds

individual directors to these parties; specifically, “individual evaluation should aim to show whether each director continues to contribute effectively and to demonstrate commitment to the role (including commitment of time for board and committee meetings and any other duties)”. Moreover, the UK Corporate Governance Code assigns to non-executive directors, led by the senior independent director, the responsibility for performance evaluation of the Chairman, taking into account the views of executive directors.

Table 7. Subjects of evaluation

Subjects of evaluation	Italy				UK			
	No. of cases	2014 (%)	No. of cases	2015 (%)	No. of cases	2014 (%)	No. of cases	2015 (%)
Whole board	23	100%	23	100%	25	100%	25	100%
Committees	23	100%	23	100%	25	100%	25	100%
Individual directors	1	4%	1	4%	19	76%	22	88%
Chairman	7	30%	10	43%	5	20%	18	72%
CEO	3	13%	4	17%	3	12%	1	4%
No disclosure	0	0%	0	0%	0	0%	0	0%

This explains why most UK companies in 2015 conducted self-assessment not only on the whole board (100% of the sample) and its committees (100% of the sample), but also on individual directors (88% of the sample), as shown in Table 7. On the other hand, only 1 and 10 Italian firms assessed single director performance and the Chairman performance respectively in the same year.

The assessment of the Chairman in the UK in 2015 was conducted by 72% of the firms in the sample. It was carried out by either the lead independent director or by the Deputy Chairman, and usually involved non-executive directors. In the same period, in Italy assessment of the Chairman, which was frequent in the banking sector (as suggested by Bank of Italy Circular No. 285), was conducted by 43% of the firms in the sample and was carried out by all board directors.

Only a few Italian and UK boards evaluated the CEO specifically.

A further important aspect is related to the parties who is asked about board evaluation. Theoretically, it is possible to extend self-assessment to a wide variety of internal and external parties, such as managers, key employees, shareholders and other relevant stakeholders. Most Italian and UK board evaluations generally identify the following sources of information for the evaluation process: the board, the corporate secretary and a few managers, whose presence at board meetings is frequent.

In Italy, where the traditional system represents the most widespread corporate governance model, auditors and Chairman are also asked to express an opinion on the composition and functioning of the board of directors, as shown in Table 8. Specifically, 10 companies involved statutory auditors in the evaluation process: some of them have a dual board and, in these cases, we identify “statutory auditors” with the “supervisory board”.

Table 8. Auditors involvement

Statutory auditors involvement	Italy				UK			
	No. of cases	2014 (%)	No. of cases	2015 (%)	No. of cases	2014 (%)	No. of cases	2015 (%)
Disclosure of the process	11	48%	10	43%	1	4%	2	8%
No disclosure	12	52%	13	57%	24	96%	23	92%
Total	23	100%	23	100%	25	100%	25	100%

Another delicate phase in board evaluation consists of designating the party conducting the process. On this point, the main difference is between internal and external self-assessment. As some boards evaluate their performance using a combination of both internal and external facilitators, in such cases we considered the external consultant to be the ‘evaluator’. As shown in Table 9, about 65% of Italian companies engaged an external consultant in 2015, showing a decrease compared to 2014, when the percentage was 74%. In the UK, the

number of firms involving an external evaluator in 2015 (16 companies, 64% of the sample) increased compared to 2014 (12 companies, 48% of the sample). Four Italian companies which conducted board evaluation internally in 2015 designated the Nomination/Governance Committee as coordinator. Most UK firms adopting internal review in the same period preferred instead to assign the responsibility for the process to the Chairman of the Board of Directors, who was usually also responsible for the evaluation of individual directors.

Table 9. Party designated to conduct evaluation

Evaluators	Italy				UK			
	No. of cases	2014 (%)	No. of cases	2015 (%)	No. of cases	2014 (%)	No. of cases	2015 (%)
Chairman	1	4%	1	4%	3	12%	5	20%
Lead independent director	2	9%	0	0%	1	4%	0	0%
Nomination/Governance Committee	1	4%	4	17%	1	4%	1	4%
Company secretary/legal council	0	0%	1	4%	3	12%	3	12%
External consultant	17	74%	15	65%	12	48%	16	64%
Chief governance officer	0	0%	0	0%	1	4%	0	0%
No disclosure	2	9%	2	9%	4	16%	0	0%
Total	23	100%	23	100%	25	100%	25	100%

However, it must be considered that many UK external consultant every three (or two) years, as companies and some Italian firms engage an shown in Table 10.

Table 10. Engagement of an external consultant in a three-year cycle mandate

External board evaluation in the recent three years	Italy				UK			
	No. of cases	2014 (%)	No. of cases	2015 (%)	No. of cases	2014 (%)	No. of cases	2015 (%)
Conducted	17	74%	17	74%	22	88%	25	100%
Did not conduct	2	9%	1	4%	0	0%	0	0%
No disclosure	4	17%	5	22%	3	12%	0	0%
Total	23	100%	23	100%	25	100%	25	100%

This result shows that all UK companies conduct an external evaluation at least every two or three years within the board cycle, as suggested by the UK Corporate Governance Code. The number of Italian firms adopting this practice in 2015 remained the same as in 2014 (74% of the sample). This suggests the existence of a growing culture of corporate governance in Italy, as regular use of an external specialized consultant can improve board performance assessments by bringing in an objective viewpoint and by providing a 'best practice' perspective.

The involvement of an external consultant in board evaluation can be on several levels: it can offer independent advice to the board throughout the process, or simply act as impartial facilitator. Both UK and Italian companies clearly prefer the former approach, which ensures the most effective process, and at the same time releases the board from the pressure of conducting an evaluation internally.

Given the potential conflicts, the external facilitator should neither have an ongoing nor recent relationship with the company. For this reason, both the Italian and UK Governance Codes state that external facilitators should be identified in the annual report, specifying whether they have any other connection with the company. More restrictively in the UK, in order to avoid potential conflicts of interest, a trend is emerging (supported, among others, by Sir David Walker) aiming not to assign board evaluation to external consultants who are not primarily focused on high professional services for the board, but mainly provide other and more general professional services to companies.

As shown in Table 11, all UK (100%) and most Italian (93%) companies in 2015 were compliant with their national Corporate Governance Code requirements for disclosure of the name of the external evaluator. These results are similar to previous year.

Table 11. Disclosure of external party's name and independence

External evaluator - disclosure of name/independence	Italy				UK			
	No. of cases	2014 (%)	No. of cases	2015 (%)	No. of cases	2014 (%)	No. of cases	2015 (%)
Disclosure of name	16	94%	14	93%	12	100%	16	100%
Disclosure of independence	10	59%	12	80%	11	92%	15	94%

In Italy 5 national consultant firms (some non-specialized in corporate governance services) assisted 15 companies. In the UK, on the other hand, 11 consultant firms (most, if not all of them specialized in corporate governance services) assisted 16 companies. In Italy, the first consultant in terms of clients assisted 5 companies and the second consultant assisted 4 firms. In the UK, however, 5 consultants were engaged in two board evaluations and 6 consultants had a single client.

Almost 80% of Italian companies and 94% of UK firms were transparent about the external consultant independence. However, although both Italian and UK Corporate Governance Codes require specific

disclosure on this issue, companies that did not provide any information did not even explain reasons for not complying with the code in this regard.

Most Italian and UK companies stated they did not have any other connection with the consultant, whereas some of them provided disclosure about the other businesses of the external evaluator with the group.

Both qualitative and quantitative methods can be used by internal and external evaluators to conduct a board self-assessment. Such methodologies are not necessarily alternatives but, on the contrary, are often used in a complementary perspective.

As shown in Table 12, in Italy the most widespread methodology of data collection in 2015 was questionnaire (39% of the sample), followed by the combination of survey and interview (30% of the sample) and interview (17% of the sample). This result reveals a change from the previous year, when

the principal methodology used in Italy was the combination of survey and interview. Single interview was instead the most widespread technique in the UK in 2015, followed by the combination of survey and interview and single questionnaire.

Table 12. Methodologies

Methodologies	Italy				UK			
	No. of cases	2014 (%)	No. of cases	2015 (%)	No. of cases	2014 (%)	No. of cases	2015 (%)
Questionnaires	6	26%	9	39%	1	4%	6	24%
Interviews	4	17%	4	17%	6	24%	10	40%
Questionnaires and interviews	10	43%	7	30%	15	60%	7	28%
Other	1	4%	1	4%	0	0%	0	0%
No disclosure	2	9%	2	9%	3	12%	2	8%
Total	23	100%	23	100%	25	100%	25	100%

One Italian firm and 5 UK firms stated that the external consultant attended some board and committee meetings in order to make a first-hand observation of the discussions.

4.3. Suggestions to shareholders, board nomination and election

In the UK, the practice of suggestions to shareholders is structurally widespread among companies. The Corporate Governance Code recommends indeed that all directors of FTSE 350 companies stand for annual re-election. Therefore, directors usually submit themselves for re-election at the annual general meeting, believing that annual re-election promotes and supports accountability to shareholders. In this context, the nomination committee is generally responsible for recommending any new board appointment and considering, more broadly, succession plans at board level. For this reason, in the UK, the nomination committee identifies the key skills and experience required for the board to function effectively, which are often recorded on a skill matrix, which sometimes includes target weightings for each attribute. Typically, every year external search firms are engaged to identify suitable candidates for both board executive and non-executive roles when appropriate. These candidates are then recommended by the nomination committee to the board for election by shareholders.

The Italian Corporate Governance Code states that the board of director shall “report its view to shareholders on the managerial and professional profiles deemed appropriate for the composition of the Board of Directors, prior to its nomination”. Among the 25 most capitalized Italian listed companies at June 30th, 2016, 10 were expected to follow this requirement, as their Board of Directors ended the one-year or three-year mandate or were staggered boards, as shown in Table 13.

Table 13. Suggestions to shareholders

Suggestions to shareholders	Italy	
	No. of cases	%
Suggestions	4	40%
No suggestions	6	60%
Total	10	100%

About 40% of Italian boards reported their view to shareholders on the appropriate profiles for the

composition of the next Board of Directors, providing quite specific and detailed advice.

The Board of Director election system in Italy is currently rather rigid. Specifically, the Italian “Testo Unico della Finanza” (2005), art.147-ter, establishes a special arrangement, called “list voting system”, to facilitate the involvement of minority shareholders in the process of board nomination and election. The list voting system was designed for companies having a stable group of controlling shareholders, dispersed minority shareholders, and a significant component of institutional investors. This type of provision is unusual in countries outside.

The list voting system assumes the presence of statutory provisions aimed at allowing representation of minority shareholders on the Board of Directors of Italian listed companies. This representation can be achieved through different approaches. The first is the proportional method, whereby the share of board members to be appointed is proportional to the voting rights present at the meeting. A second method consists, however, on reserving a predetermined percentage of board members for minorities.

Italian law requires that at least one board member be elected from the minority list that has obtained the highest number of votes and is not connected even indirectly to the shareholders who have presented or voted for the list obtaining the highest number of votes. The definition of the minimum share required for list submission by shareholders is defined by the company in its statutes, but the law defines a minimum threshold. Lists are drawn up before the shareholder meetings, through the use of blocked and unchangeable lists. For this reason, the vote can be expressed only on predefined lists and, once lists are presented, each shareholder can vote for a single list. This model makes it possible to appoint all directors simultaneously. The Chairman of the shareholder meeting, once votes are counted, applies the statutory ‘electoral rule’ and, thus assigns seats among the lists that have received the votes.

To date, the list voting system has been mainly used by institutional investors, as they are probably able to interpret the values and interests of the market and often hold a percentage of shares for presenting lists higher than the minimum defined in the statutes of Italian listed companies.

The list voting system in Italy has recently been criticized because, even in cases not involving state corporations, it has happened that lists of

candidates presented by what was thought to be the "majority" received fewer votes and were in reality "minority". At the same time, lists presented as "minority", and therefore often incomplete in the number of candidates, received more votes and were in reality "majority" lists. On this point, we conducted an analysis on the 25 most capitalized

Italian listed companies at June 30th, 2016. Unfortunately, data were available only for 16 of these 25 companies. Specifically, we identified companies where, during the last two shareholder meetings, the "majority" list was shown by voting to be in fact a "minority" list.

Table 14. Shareholder meeting votes

<i>Suggestions to shareholders</i>	<i>Italy</i>			
	<i>Last shareholder meeting</i>		<i>Previous shareholder meeting</i>	
Voting showed "majority" list was "majority"	13	81%	16	100%
Voting showed "majority" list was "minority"	3	19%	0	0%
Total	16	100%	16	100%

Our results (Table 14) show that in 2014 (Telecom Italia), 2015 (Unicredit) and 2016 (SNAM) majority lists proved to be minority lists, in part because of the greater weight of shares belonging to foreign institutional investors in Italian companies. The same happened in 2016 in UBI Banca, where the ex-ante "minority" list, presented by institutional investor, received the 51.1% of votes, against 48.48% received by the ex-ante "majority". This means that institutional investors can be a majority in the shareholder meeting, but they can submit lists with a few candidates, thus playing a role that does not effectively impact on corporate decisions and without being able to vote against unwelcome candidates presented by others.

Therefore, the fact that ex-ante "majority" or "minority" lists cannot be identified before the vote suggests that the Italian system is in need of fundamental reform. A possible solution for publicly held corporations could be to allow an individual vote on each director within a single list. This list could be presented by the outgoing Board of Directors, as happened in 2015 in the Prysmian Group, based on the suggestions of the nomination committee. In this context, only directors receiving the majority of votes would be elected.

5. CONCLUSIONS

Board review appears to be a fairly widespread practice among Italian listed companies, partly because of the specific requirement established by the national Corporate Governance Code. Our analysis suggests that in 2016 the most capitalized Italian companies improved their self-assessment compared to the past, in particular with regard to the disclosure of the process, the involvement of independent external consultants and the number of evaluated subjects. However, we believe that certain aspects should be further developed in the near future.

One improvement could be achieved in terms of process setting. Today, Italian companies seem to prefer a compliance approach, enabling them to demonstrate that they fulfill the specific national Corporate Governance Code requirement. We believe that this approach might lead, over time, to perceiving board self-assessment as a mere formal and bureaucratic practice, thus distorting its real aims. We would hope that Italian companies will gradually move towards an approach focused on the real performance of the board, with a more forward-looking attitude related to the achievement of plans and improvement of processes.

A second point relates to peer review. To date, Italian companies have been very skeptical in the adoption of this practice, as UK companies were at the beginning. It is in fact culturally quite difficult for Italian board members to express, even anonymously, a judgment on their colleagues, especially in terms of points of weaknesses. Although we understand the reasons for this difficulty, we believe that peer evaluation should also be developed in Italy. In a performance perspective, it would help to develop board dynamics and stimulate the contribution of individual directors, allowing them to identify any underutilized, unrecognized or lacking skills within the group. It could take a soft rather than a hard approach, in other words not requiring a precise and quantitative judgment on individual directors. It could simply be used to indicate outstanding performance by individuals who should be retained for a subsequent mandate, or to indicate key skills not adequately represented within the board. This would make it possible to identify best performing board members as well as those who are less effective, and would be also useful to improve induction planning.

A third improvement could be made by using suggestions to shareholders on the managerial and professional profiles deemed appropriate for the composition of the Board of Directors. This practice is widespread in the UK, where companies are often characterized by the presence of staggered Boards of Directors and a large number of directors is re-elected annually. Each year the nominations committee instructs a specializing consultant in board member search to identify the most suitable candidates to become executive or non-executive directors, and these names are recommended to shareholders. The British approach is culturally very different from the Italian one and could be difficult to apply it in Italy. On this point, the Italian Corporate Governance Code suggests that the Board of Directors shall "*report its view to shareholders on the managerial and professional profiles deemed appropriate for the composition of the board of directors, prior to its nomination*". In 2016 about 40% of the Italian boards of the most capitalized listed companies published a document related to the qualitative and quantitative better composition of the next board. The content of these documents, in most cases, is fairly generic, and does not clearly define required characteristics of future directors. However, we believe that it would be useful for Italian companies to be more courageous. They need to follow the example of UK firms, and outline

profiles of potential future candidates for the Board of Directors in terms of their skills, knowledge and experience.

This paper analyses Italian trends on board evaluation compared to UK trends. The board review process is investigated in terms of objectives, parties involved, methodological approaches, suggestions to shareholders, board nomination and election. In our knowledge, this is the first study comparing board review processes in two different countries. For this

reason, future researches could investigate the same processes in other countries, trying to identify international best practices.

The main limitation of our paper is that information are extracted by public sources (Annual Report for UK and Corporate Governance Report for Italy). For this reason, future researches could investigate board evaluations more in depth by using also corporate internal documents and direct interviews to board members.

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